

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of September 30, 2021
(With corresponding figures for 2020)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2021 AND 2020 AND DECEMBER 31, 2020
(In colones)

	Note	September 2021	December 2020	September 2020
ASSETS				
Cash and due from banks	9	1,273,634,653,388	1,383,902,440,319	1,316,623,469,390
Cash		129,031,074,444	99,375,577,345	97,150,160,339
BCCR		705,307,979,246	822,607,349,488	842,018,500,469
Local financial entities		1,496,596,047	1,403,645,589	1,047,704,297
Foreign financial entities		306,136,031,238	452,827,309,776	369,869,506,765
Notes payable on demand		11,844,806,151	6,280,622,565	5,078,656,309
Restricted cash and due from banks		119,818,166,262	1,407,935,556	1,458,941,211
Investments in financial instruments	10	1,699,247,757,103	1,388,856,750,831	1,507,310,979,370
At fair value through profit or loss		37,416,639,368	23,465,673,087	20,524,238,772
At fair value through other comprehensive income		794,647,891,601	849,337,898,903	809,950,432,152
At amortized cost		843,817,682,453	483,076,553,779	645,566,633,811
Derivative financial instruments	11	11,774,873,989	15,753,371,710	17,249,216,592
Accrued interest receivable		14,278,658,692	19,648,169,663	14,375,652,605
(Allowance for impairment of investments in financial instruments)		(2,687,989,001)	(2,424,916,311)	(355,194,562)
Loan portfolio	12	4,274,007,727,172	4,296,577,338,170	4,240,680,641,818
Current		4,031,437,579,819	4,116,568,006,084	3,965,281,934,856
Past due		156,486,320,241	84,141,099,223	204,563,328,851
In legal collection		143,937,090,806	158,003,288,313	146,572,499,086
Direct incremental costs related to loans		3,490,573,408	3,756,519,754	3,836,314,971
(Deferred income on loan portfolio)		(33,947,580,223)	(33,106,164,873)	(32,679,657,179)
Accrued interest receivable		125,814,169,894	122,742,551,278	102,600,614,875
(Allowance for loan losses)		(153,210,426,773)	(155,527,961,609)	(149,494,393,642)
Accounts and fees and commissions receivable	13	4,723,868,563	3,540,248,917	3,059,282,962
Fees and commissions receivable		1,709,566,299	1,378,393,151	1,488,566,080
Accounts receivable for brokerage operations		-	5,728,706	-
Accounts receivable for transactions with related parties		21,490,250	19,025,296	65,199,005
Deferred tax and income tax receivable		2,858,499,359	2,026,008,000	1,584,988,723
Other receivables		4,322,716,025	4,326,039,872	4,295,568,871
Accrued interest receivable		3,088,317	2,991,594	9,363,276
(Allowance for impairment of accounts and fees and commissions receivable)		(4,191,491,687)	(4,217,937,702)	(4,384,402,993)
Foreclosed assets	14	31,255,661,448	32,365,899,015	34,217,309,930
Assets and securities acquired in lieu of payment		91,982,358,414	98,844,527,473	104,039,256,082
Other available-for-sale assets		55,884,629	55,884,629	55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(60,782,581,595)	(66,534,513,087)	(69,877,830,781)
Investments in other companies	15	74,590,042,540	72,427,044,877	71,270,060,641
Property, furniture and equipment, net	16	206,144,946,716	213,220,001,233	213,820,661,086
Other assets	17	76,611,166,922	99,224,929,910	75,974,172,353
Deferred charges		32,375,702,204	43,321,227,963	47,062,690,761
Intangible assets		9,291,351,322	5,300,401,472	5,178,529,452
Other assets		34,944,113,396	50,603,300,475	23,732,952,140
TOTAL ASSETS		7,640,215,823,852	7,490,114,653,272	7,462,956,577,550

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2021 AND 2020 AND DECEMBER 31, 2020
(In colones)

LIABILITIES AND EQUITY	Note	September 2021	December 2020	September 2020
LIABILITIES				
Obligations with the public	18	5,776,391,123,136	5,634,090,139,712	5,588,157,205,006
Demand obligations		3,840,031,192,060	3,553,063,486,246	3,488,033,787,461
Term obligations		1,908,011,075,105	2,036,536,524,256	2,047,950,005,732
Other obligations		-	7,873,700,508	14,219,737,164
Finance charges payable		28,348,855,971	36,616,428,702	37,953,674,649
Obligations with BCCR	19	169,034,639,545	8,126,311,079	125,644,412
Term obligations		168,418,644,412	8,125,644,412	125,644,412
Finance charges payable		615,995,133	666,667	-
Obligations with entities	20	758,736,774,133	921,247,445,981	971,932,015,631
Demand obligations		70,159,469,648	65,275,408,256	83,197,452,626
Term obligations		680,751,940,435	850,885,682,288	876,458,986,288
Other obligations		(55,768,264)	(49,567,474)	(39,984,750)
Finance charges payable		7,881,132,314	5,135,922,911	12,315,561,467
Accounts payable and provisions		128,073,976,537	130,862,868,189	114,293,202,318
Provisions	22	21,182,625,428	28,641,885,395	27,667,759,894
Accounts payable for brokerage services		2,239,971,683	1,683,288,201	1,980,491,388
Deferred tax	21-b	18,237,045,033	24,275,593,286	12,941,532,018
Other sundry accounts payable	23	86,414,334,393	76,262,101,307	71,703,419,018
Other liabilities	24	29,975,922,836	37,052,115,137	21,435,109,625
Deferred income		67,448,131	72,347,267	44,978,655
Other liabilities		29,908,474,705	36,979,767,870	21,390,130,970
Subordinated obligations	25	47,457,204,527	60,950,013,196	59,785,626,923
Subordinated obligations		47,070,822,500	59,878,100,000	59,302,970,000
Finance charges payable		386,382,027	1,071,913,196	482,656,923
TOTAL LIABILITIES		6,909,669,640,714	6,792,328,893,294	6,755,728,803,915
EQUITY				
Share capital		172,237,030,102	172,237,030,102	172,237,030,102
Paid-in capital	26-a	172,237,030,102	172,237,030,102	172,237,030,102
Equity adjustments - Other comprehensive income		96,861,384,734	79,402,840,338	88,610,306,603
Reserves	26-b	365,144,722,092	381,362,590,326	378,240,601,888
Prior-period retained earnings		39,801,486,842	11,005,359,016	18,360,300,456
Income for the period		14,814,055,345	14,734,575,073	10,736,169,463
Capital contributions in special funds	26-c	41,687,504,022	39,043,365,123	39,043,365,123
TOTAL EQUITY		730,546,183,137	697,785,759,978	707,227,773,635
TOTAL LIABILITIES AND EQUITY		7,640,215,823,851	7,490,114,653,272	7,462,956,577,550
DEBIT MEMORANDA ACCOUNTS	27	500,609,506,107	481,372,304,314	473,890,070,811
TRUST ASSETS	28	2,763,361,986,291	2,001,643,523,415	1,792,677,358,429
TRUST LIABILITIES		124,549,632,134	138,640,927,340	137,923,455,025
TRUST EQUITY		2,638,812,354,157	1,863,002,596,075	1,654,753,903,404
TRUST MEMORANDA ACCOUNTS		197,179,215,738	159,832,530,404	140,350,362,458
OTHER DEBIT MEMORANDA ACCOUNTS	29	30,225,283,412,234	26,668,196,780,571	25,065,505,503,767
Own debit memoranda accounts		8,672,200,663,049	8,317,223,534,996	7,451,636,733,439
Third-party debit memoranda accounts		4,745,402,776,819	4,073,331,070,341	3,914,501,931,374
Own debit memoranda accounts for custodial activities		683,956,706,733	654,639,927,606	749,762,463,027
Third-party debit memoranda accounts for custodial activities		16,123,723,265,633	13,623,002,247,628	12,949,604,375,927

Bernardo Alfaro Araya
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Alejandra Morales Centeno
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The notes are an integral part of these consolidated financial statements.



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2021
(In colones)

		Nine months ended		Three months ended	
	Note	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Finance income					
Cash and due from banks	33	823,164,890	2,221,915,812	236,173,435	369,354,836
Investments in financial instruments	33	46,356,891,473	54,466,803,250	14,849,703,593	16,962,490,928
Loan portfolio	34	267,339,445,937	293,819,923,751	88,366,105,847	93,737,397,272
Gain on financial instruments at fair value through profit or loss		179,144,763	2,880,305,110	61,657,903	544,638,311
Gain on financial instruments at fair value through other comprehensive income		12,015,773,196	5,945,638,735	4,161,304,427	2,097,578,168
Gain on derivative financial instruments, net	11	-	15,131,966,059	-	(688,109,831)
Other finance income	35	7,359,535,269	13,359,593,020	2,464,789,872	5,799,419,898
Total finance income		334,073,955,528	387,826,145,737	110,139,735,077	118,822,769,582
Finance costs					
Obligations with the public	36	92,212,064,648	133,147,409,470	28,032,907,816	39,133,040,944
Obligations with BCCR		617,607,008	8,507,639	344,065,689	2,327,083
Obligations with financial and non-financial entities	37	26,316,559,732	36,246,070,815	7,394,247,568	11,722,645,439
Subordinated, convertible and preferred obligations		2,234,568,822	3,376,604,466	718,461,341	973,272,667
Loss on foreign exchange differences and DU, net	6-c	66,153,291	1,179,126,391	53,533,112	714,274,495
Loss on financial instruments at fair value through profit or loss		3,158,703	3,143,169,030	972,352	230,223,438
Loss on financial instruments at fair value through other comprehensive income		88,666,502	832,978,204	13,517,812	33,007,270
Loss on derivative financial instruments, net	11	395,132,997	-	283,059,512	-
Other finance costs	38	1,504,848,216	19,441,009,955	256,197,340	315,533,682
Total finance costs		123,438,759,919	197,374,875,970	37,096,962,542	53,124,325,018
Allowance for impairment of assets	39	75,204,192,603	57,025,955,790	28,027,568,424	18,481,808,498
Recovery of assets and decrease in allowances	40	11,406,094,105	7,160,748,356	4,578,432,523	2,074,725,870
FINANCE INCOME		146,837,097,111	140,586,062,333	49,593,636,634	49,291,361,936
Other operating income					
Service fees and commissions	41	108,921,663,876	100,930,139,161	37,487,057,431	33,182,241,218
Foreclosed assets		7,661,352,579	3,206,736,164	1,201,457,337	860,772,436
Gain on investments in other companies	8	733,304,503	907,111,819	274,268,491	134,577,199
Foreign currency exchange and arbitrage		16,441,632,895	14,923,773,141	5,758,998,341	4,435,459,976
Other income from related parties		2,063,325	-	-	-
Other operating income	42	5,133,838,381	14,227,432,215	1,459,373,262	2,476,643,653
Total other operating income		138,893,855,559	134,195,192,500	46,181,154,862	41,089,694,482

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2020 AND 2021
(In colones)

		Nine months ended		Three months ended	
	Note	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Other operating expenses					
Service fees and commissions		25,474,358,028	24,908,964,708	8,642,005,452	7,985,155,475
Foreclosed assets	43	9,021,362,832	14,565,293,019	2,767,262,941	3,146,949,250
Provisions	44	5,090,044,134	5,545,464,368	1,785,655,886	1,862,585,071
Bonuses on fees and commissions of voluntary pension funds		408,803,213	154,951,280	144,289,164	64,261,556
Foreign currency exchange and arbitrage		6,596,768	3,619,976	5,969,275	1,270,352
Other expenses with related parties		13,961,813	15,220,122	5,844,767	5,611,362
Other operating expenses	45	39,535,316,818	37,569,480,189	13,001,330,735	12,918,836,641
Total other operating expenses		79,550,443,606	82,762,993,662	26,352,358,220	25,984,669,707
GROSS OPERATING INCOME		206,180,509,064	192,018,261,171	69,422,433,276	64,396,386,711
Administrative expenses					
Personnel expenses	46	103,273,452,420	100,925,345,364	35,034,193,332	33,694,873,975
Other administrative expenses	47	51,710,563,838	48,451,423,090	17,680,706,703	16,647,176,473
Total administrative expenses		154,984,016,258	149,376,768,454	52,714,900,035	50,342,050,448
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		51,196,492,806	42,641,492,717	16,707,533,241	14,054,336,263
Current tax	21-a	14,733,229,565	12,904,390,947	4,976,407,374	4,410,954,648
Prior period income tax	21-a	10,641,928,449	10,695,457,037	3,547,309,483	3,547,309,479
Deferred tax	21-a	926,455,118	593,276,918	87,490,774	27,539,679
Deferred tax income	21-a	1,162,612,311	1,367,060,175	244,632,198	507,046,937
Statutory allocations	48	11,243,436,640	9,079,258,527	3,649,495,264	2,910,577,462
INCOME FOR THE PERIOD		14,814,055,345	10,736,169,463	4,691,462,544	3,665,001,932
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Items that will not be reclassified to profit or loss					
Surplus from revaluation of property		8,640,544,865	403,726,890	8,543,518,476	153,648,636
Other adjustments		4,089,183,011	3,304,722,779	2,219,454,504	3,081,952,739
Items that are or may be reclassified to profit or loss					
Adjustment for valuation of investments at fair value through other comprehensive income		5,219,509,264	3,310,230,050	1,973,319,426	2,699,383,314
Adjustment for valuation of restricted financial instruments		(2,869,322)	(25,665,249)	-	(3,346,647)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		17,946,367,818	6,993,014,470	12,736,292,406	5,931,638,042
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		32,760,423,163	17,729,183,933	17,427,754,950	9,596,639,974

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	Total
Balance at December 31, 2019	172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	53,253,753,772	691,938,025,338
Changes in accounting policies	-	-	-	-	(2,439,435,636)	(2,439,435,636)
Balance at January 1, 2020	172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	50,814,318,137	689,498,589,703
<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)	-
Equity of special funds	-	-	-	4,394,829,159	(4,394,829,159)	-
Total transactions with owners booked directly in equity	-	-	29,442,199,429	4,394,829,159	(33,837,028,588)	-
Comprehensive income for the period:						
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	-	3,310,230,050	-	-	-	3,310,230,050
Adjustment for valuation of restricted financial instruments	-	(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	-
Total comprehensive income for the period	-	5,610,003,562	-	-	12,119,180,371	17,729,183,933
Balance at September 30, 2020	172,237,030,102	88,610,306,603	378,240,601,888	39,043,365,123	29,096,469,919	707,227,773,635

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	Total
Balance at December 31, 2020	172,237,030,102	79,402,840,338	381,362,590,326	39,043,365,123	25,739,934,089	697,785,759,978
Transactions with owners booked directly in equity:						
Legal reserves	-	-	(16,062,790,042)	-	16,062,790,042	-
Other statutory reserves	-	-	(155,078,192)	-	155,078,192	-
Equity of special funds	-	-	-	2,644,138,899	(2,644,138,899)	-
Total transactions with owners booked directly in equity	-	-	(16,217,868,234)	2,644,138,899	13,573,729,335	-
Comprehensive income for the period:						
Income for the period	-	-	-	-	14,814,055,345	14,814,055,345
Surplus from revaluation of property	-	8,640,544,865	-	-	-	8,640,544,865
Adjustment for valuation of investments at fair value through other comprehensive income	10	5,219,509,264	-	-	-	5,219,509,264
Adjustment for valuation of restricted financial instruments	10	(2,869,322)	-	-	-	(2,869,322)
Other adjustments	-	4,089,183,011	-	-	-	4,089,183,011
Realization of surplus from revaluation of property	-	(487,823,418)	-	-	487,823,418	-
Total comprehensive income for the period	-	17,458,544,400	-	-	15,301,878,763	32,760,423,163
Balance at September 30, 2021	26	172,237,030,102	365,144,722,092	41,687,504,022	54,615,542,187	730,546,183,141

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(In colones)

	Note	September 2021	September 2020
Cash flows from operating activities			
Income for the period		14,814,055,345	10,736,169,463
Items not requiring cash			
Depreciation and amortization		16,301,920,481	17,176,888,160
Loss on foreign exchange differences and DU, net		10,653,823,239	46,712,916,932
Loss (gain) on sale of non-financial assets		5,398,111,569	(2,787,245,466)
Finance income		(313,696,337,410)	(348,286,727,001)
Finance costs		89,232,477,719	125,361,011,392
Allowance for investments, net		2,720,438,195	340,396,010
Allowance for loan losses and stand-by credits, net		69,504,941,186	49,190,283,530
Allowance for other accounts receivable, net		240,427,166	334,527,895
(Gain) loss on allowance for foreclosed assets, net		(5,751,931,492)	6,159,419,697
Severance provision		(99,259)	(297,159,107)
Other provisions, net		7,835,377,777	(2,129,374,279)
Share of profit in foreign associate, net		(3,494,831,798)	(13,542,858,533)
Statutory allocations		11,243,436,640	9,079,258,527
Income tax expense, net	21-a	25,375,158,014	23,599,847,984
Deferred tax, net	21-a	(236,157,193)	(773,783,257)
		(69,859,189,821)	(79,126,428,053)
Cash flows from operating activities			
Loan portfolio		(34,783,168,085)	28,824,745,149
Accounts and fees and commissions receivable		(3,779,087,904)	(954,037,610)
Foreclosed assets		15,180,113,466	13,708,579,297
Other assets		27,129,025,440	10,897,913,508
Obligations with the public		90,812,504,496	202,997,599,171
Obligations with BCCR and other entities		(145,994,901,575)	(36,325,712,319)
Obligations for accounts payable, fees and commissions payable and provisions		8,604,440,320	(5,701,891,256)
Other liabilities		828,001,870	(84,666,464,560)
Income tax paid		(25,191,856,830)	(26,220,692,465)
Interest received on loan portfolio and investments		315,994,229,765	286,174,718,978
Interest paid on term obligations with the public and financial entities		(94,139,512,581)	(132,152,309,674)
Statutory allocations paid		(12,320,255,489)	(17,158,214,687)
Net cash from operating activities		72,480,343,072	160,297,805,479
Cash flows from investing activities			
Increase in financial instruments		(994,302,312,773)	(2,417,356,411,207)
Decrease in financial instruments		752,710,603,306	2,399,844,530,635
Acquisition of property and equipment		(19,477,690,996)	(10,150,284,164)
Sale of property and equipment		652,385,304	-
Acquisition of intangible assets		(7,287,932,963)	(1,272,565,558)
Net cash used in investing activities		(267,704,948,122)	(28,934,730,294)
Cash flows from financing activities			
Settlement of financial obligations		(58,064,203,048)	(11,755,150,077)
Other financing activities		200,485,000,000	44,082,782,415
Payment of lease liabilities		(1,388,776,630)	(1,586,808,216)
Net cash from financing activities		141,032,020,322	30,740,824,122
Net (decrease) increase in cash and cash equivalents		(54,192,584,728)	162,103,899,307
Cash and cash equivalents at beginning of period		1,483,188,630,362	1,395,702,680,764
Cash and cash equivalents at end of period	9	1,428,996,045,634	1,557,806,580,071

Bernardo Alfaro Araya
General Manager

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021
(With corresponding figures for 2020)

(1) Reporting entity

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

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

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

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

As of September 30, 2021, the Bank has 156 offices, 460 ATM's, and along with its subsidiaries a total of 5,446 employees (2020: 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 - 4,994 employees (2020: 5,098); BN Valores Puesto de Bolsa, S.A. - 72 employees (2020: 67); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 191 employees (2020: 179); BN Sociedad Administradora de Fondos de Inversión, S.A. - 89 employees (2020: 89); and BN Sociedad Corredora de Seguros, S.A. - 100 employees (2020: 104). The Bank's website is www.bncr.fi.cr.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The main components of the financial statements of the entities in which the Bank holds ownership interest are as follows:

September 2021						
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.	
Assets	¢ 36,665,323,046	13,032,854,759	17,064,880,006	9,713,327,460	537,886,203,774	
Liabilities	19,918,541,820	2,249,804,131	4,048,679,222	1,692,523,725	463,346,784,511	
Equity	16,746,781,226	10,783,050,628	13,016,200,784	8,020,803,735	74,539,419,264	
Income for the period	2,315,094,202	2,468,933,853	1,436,304,647	2,618,245,064	729,256,389	
Memoranda accounts	1,186,429,394,724	762,311,943,599	2,231,664,088,445	-	-	
December 2020						
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.	
Assets	¢ 49,576,661,728	11,093,309,837	12,218,697,173	8,106,052,844	562,510,298,505	
Liabilities	31,045,542,773	1,289,254,469	2,507,717,325	931,494,174	490,133,876,894	
Equity	18,531,118,955	9,804,055,368	9,710,979,848	7,174,558,670	72,376,421,611	
Income for the year	2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	866,529,479	
Memoranda accounts	1,199,940,596,159	599,339,040,487	1,870,044,097,261	-	-	
September 2020						
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	Banco Internacional de Costa Rica, S.A.	
Assets	¢ 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	-	-	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) Basis of accounting

(a) Basis of accounting

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

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

(b) Basis of measurement

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

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

(3) Functional and presentation currency

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Use of estimates and judgments

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

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

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

a- Judgments

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

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

b- Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the nine months ended September 30, 2021 is related to the impairment of financial instruments.

(i) Fair value measurement

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Significant accounting policies

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

(a) Basis of consolidation

i. *Subsidiaries*

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

ii. *Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. As of September 30, 2021, the Bank has 49% ownership interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

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

iii. *Loss of control*

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

iv. *Interests in equity-accounted investees*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

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

(b) Foreign currency

i. *Foreign currency transactions*

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

ii. *Monetary unit and foreign exchange regulations*

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

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

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

As of September 30, 2021, assets and liabilities in US dollars are valued at the exchange rate of ¢629.71 to US\$1.00 (September 2020: ¢606.68 to US\$1.00), which is the reference selling rate established by BCCR.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, assets and liabilities denominated in euro are valued at the exchange rate of ¢729.14 to €1.00 (September 2020: ¢709.57 to €1.00), which is obtained by multiplying the international Reuters exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of September 30, 2021, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢931.79 to DU1.00 (September 2020: ¢916.86 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Foreign operations

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

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

(c) Financial instruments

(i) Recognition and initial measurement

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Classification and subsequent measurement

Financial assets

Classification

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Business model assessment

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time (e.g. if there are reimbursements of the principal).

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

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

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Conglomerate's claim to cash flows from specified assets (e.g. non-recourse loans);
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent measurement and gains and losses

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

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

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

Financial liabilities

Classification

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

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

Subsequent measurement and gains and losses

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Impairment of financial assets

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

- Investments in financial instruments
- Accrued interest receivable

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

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

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

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

Measurement of ECL

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

Forward-looking information

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(d) Impairment of non-financial assets

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Derecognition

Financial assets

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

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

Financial liabilities

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

(v) Offsetting

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

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

(e) Derivative financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(f) Embedded derivatives

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

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

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

The Conglomerate currently has the following derivative financial instruments:

✓ Derivatives held for risk management

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

✓ Derivatives other than hedges

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(g) Cash and cash equivalents

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

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

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) *Depreciation and amortization*

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

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

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

(i) Intangible assets

(i) *Recognition and measurement*

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

(ii) *Amortization*

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

(iii) *Subsequent costs*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(j) Leases

At inception of a contract, the Conglomerate assesses whether a contract is, or contains, a lease.

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

(i) As a lessee

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- fixed payments, including in-substance fixed payments; and
- the exercise price under a purchase option that the Conglomerate is reasonably certain to exercise, lease payments in an optional renewal period if the Conglomerate is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

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

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

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

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

The Conglomerate recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(k) Loan portfolio

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Allowance for loan losses

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

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

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

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

As of September 30, 2021, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) Other receivables

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

(o) Foreclosed assets

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

For foreclosed assets prior to the aforementioned date, management of the Conglomerate follows the policy of recognizing an allowance equivalent to 100% of the realizable value for assets that are not sold or leased, within two years from the date of acquisition or production.

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

A provision is recognized in the consolidated statement of financial position if, as a result of a past event, the Conglomerate has a present legal or constructive obligation and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision made approximates settlement value; however, final amounts may vary.

The estimated value of provisions is adjusted at the consolidated statement of financial position, directly affecting the consolidated statement of comprehensive income.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Short-term employee benefits

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

Statutory Christmas bonus

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

Vacation

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

Incentives plan

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The expense for the incentive is booked monthly in a liability account, which is liquidated the following year when the payment is made to employees and former employees who met the required conditions. For 2021, there is an arbitration process underway, which prevents the payment of the incentive.

(ii) Defined contribution plans

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

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

(iii) Defined benefit plans

The Conglomerate'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 Conglomerate, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(iv) Termination benefits

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Employee Protection and Retirement Fund

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

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

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

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

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

(s) Deferred income

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(v) Income tax

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

i. *Current tax*

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Deferred tax*

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

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

iii. *Tax benefits FOCREDE*

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

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

(w) Segment reporting

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

(x) Financial statements of the different departments

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(y) Recognition of income and expenses

i. Interest income and interest expense

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

The Conglomerate follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. Interest income on those loans is recognized when collected.

DU are valued using the rates provided by SUGEVAL for such purposes. The effect of valuation of assets and liabilities denominated in DU is directly booked in the corresponding foreign exchange gain and foreign exchange loss accounts in the statement of comprehensive income.

ii. Fee and commission income

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

iii. Income from foreign currency exchange and arbitrage

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. Operating lease expenses

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

(z) Statutory allocations

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(aa) Development Financing Funds (FOFIDE)

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

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

(bb) Development Credit Fund (FOCREDE)

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(cc) Trust operations

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

(6) Risk management

The Conglomerate has exposure to the following risks:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Conglomerate manages the above risks as follows:

a) Credit risk

i. Banco Nacional de Costa Rica

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

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

The Bank has established the following credit risk management procedures:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

	Note	Direct		Stand-by	
		September 2021	September 2020	September 2021	September 2020
Loan portfolio					
Principal	12-a	¢ 4,331,860,990,866	4,316,417,762,793	342,482,165,624	322,813,011,267
Accounts and accrued interest receivable		125,814,169,894	102,600,614,875	-	-
Gross carrying amount		4,457,675,160,760	4,419,018,377,668	342,482,165,624	322,813,011,267
Incremental direct costs related to loans		3,490,573,408	3,836,314,971	-	-
(Deferred income from loan portfolio)		(33,947,580,223)	(32,679,657,179)	-	-
Allowance for loan losses (accounting records)		(153,210,087,129)	(129,146,543,259)	(848,524,934)	(621,395,399)
Net carrying amount	¢	<u>4,274,008,066,816</u>	<u>4,261,028,492,201</u>	<u>341,633,640,690</u>	<u>322,191,615,868</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct		Stand-by	
	September 2021	September 2020	September 2021	September 2020
<i>Loan portfolio</i>				
Total balances:				
0	¢ 38,878,614,907	40,739,660,625	-	-
A1	3,405,184,884,863	3,254,523,117,420	318,897,100,635	297,146,846,874
A2	74,424,611,643	61,092,159,637	1,377,329,791	902,543,512
B1	425,225,614,020	540,446,503,142	18,108,221,433	20,785,930,846
B2	15,471,050,094	16,488,264,688	54,481,647	186,005,751
C1	146,264,770,144	124,518,445,106	1,305,421,747	1,583,314,753
C2	8,594,007,520	7,828,680,681	51,279,549	94,415,817
D	141,697,157,792	172,926,044,098	1,188,998,224	1,072,082,357
E	201,934,449,777	200,455,502,271	1,499,332,598	1,041,871,357
	<u>4,457,675,160,760</u>	<u>4,419,018,377,668</u>	<u>342,482,165,624</u>	<u>322,813,011,267</u>
Structural allowance (subledger – database)	<u>(97,912,127,645)</u>	<u>(108,748,301,735)</u>	<u>(116,851,174)</u>	<u>(248,872,801)</u>
Net carrying amount	¢ <u>4,359,763,033,115</u>	<u>4,310,270,075,933</u>	<u>342,365,314,450</u>	<u>322,564,138,466</u>
Individually assessed loans with allowance:				
0	¢ 38,508,681,190	40,699,660,871	-	-
A1	3,404,081,024,869	3,253,887,880,426	318,897,100,635	23,737,966,258
A2	74,424,611,643	61,092,159,637	1,377,329,791	53,513,960
B1	425,225,614,020	540,446,503,142	18,108,221,433	13,074,338,312
B2	15,471,050,094	16,488,264,688	54,481,647	-
C1	146,034,563,168	124,518,445,106	1,305,421,747	62,863,982
C2	8,594,007,520	7,828,680,681	51,279,549	-
D	141,697,157,792	172,926,044,098	1,188,998,224	58,977,476
E	201,934,449,777	200,455,502,271	1,499,332,598	12,275,323
	<u>4,455,971,160,073</u>	<u>4,418,343,140,920</u>	<u>342,482,165,624</u>	<u>36,999,935,311</u>
Structural allowance (subledger – database)	<u>(97,912,127,645)</u>	<u>(108,748,301,735)</u>	<u>(116,851,174)</u>	<u>(248,872,801)</u>
Net carrying amount	¢ <u>4,358,059,032,428</u>	<u>4,309,594,839,185</u>	<u>342,365,314,450</u>	<u>36,751,062,510</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct		Stand-by	
	September 2021	September 2020	September 2021	September 2020
Current loan portfolio, without allowance:				
0	369,933,717	40,000,000	-	-
A1	1,103,859,994	635,236,748	-	273,408,880,318
A2	-	-	-	849,029,552
B1	-	-	-	7,711,592,534
B2	-	-	-	186,005,751
C1	230,206,976	-	-	1,520,450,771
C2	-	-	-	94,416,115
D	-	-	-	1,013,104,881
E	-	-	-	1,029,596,034
Carrying amount	1,704,000,687	675,236,748	-	285,813,075,956
Gross carrying amount	¢ 4,457,675,160,760	4,419,018,377,668	342,482,165,624	322,813,011,267
Allowance for loan losses (database)	(97,912,127,645)	(108,748,301,735)	(116,851,174)	(248,872,801)
Excess of allowance over structural allowance	(55,297,959,484)	(20,398,241,524)	(731,673,760)	(372,522,598)
Incremental direct costs	3,490,573,408	3,836,314,971	-	-
(Deferred income from loan portfolio)	(33,947,580,223)	(32,679,657,179)	-	-
Net carrying amount	12-a ¢ 4,274,008,066,816	4,261,028,492,201	341,633,640,690	322,191,615,868
Restructured loans	¢ 28,726,771,237	44,861,072,400	-	-

Set out below is an analysis of the Bank's loan portfolio balances as of September 30, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

		September 2021	
		Loans to customers	
		Gross	Net
0	¢	38,878,614,907	37,885,267,252
A1		3,405,184,884,863	3,331,890,843,879
A2		74,424,611,643	74,043,590,341
B1		425,225,614,020	421,090,172,304
B2		15,471,050,094	15,258,117,755
C1		146,264,770,144	142,108,023,292
C2		8,594,007,520	7,711,342,879
D		141,697,157,792	126,986,491,264
E		201,934,449,777	147,491,224,665
	¢	4,457,675,160,760	4,304,465,073,631

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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
	¢	4,419,018,377,668	4,289,871,834,409

As shown above, as of September 30, 2021, the gross portfolio amounts to ¢4,458 billion. Of that amount, 88.82% is classified in risk ratings “A+B” and 11.18% in risk ratings “C+D+E” (September 2020: ¢4,419 billion, of which 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 Directives 1-05 and 15-16, a risk rating is assigned to all borrowers. Applicable allowance percentages are determined based on that risk rating. Individually assessed loans with allowance are loan operations for which, after considering the guarantee for the loan, there is still a balance to which the applicable allowance percentage will be applied.

Past due loans without allowance:

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

Restructured loans:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Loan write-off policy:

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

Borrower classification

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct		Stand-by	
	September 2021	September 2020	September 2021	September 2020
Group 1	¢ 2,341,513,925,904	2,272,419,921,165	48,921,681,807	41,654,847,795
Group 2	2,116,161,234,856	2,146,598,456,503	293,560,483,817	281,158,163,472
	¢ 4,457,675,160,760	4,419,018,377,668	342,482,165,624	322,813,011,267

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:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

Analysis of creditworthiness

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

- 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.
- 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.
- Business environment:* Analysis of the main sector variables that affect the borrower's creditworthiness.
- 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.

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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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

	<u>September 2021</u>		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Excess of allowance</u>
Allowance for direct loans	¢ 152,361,562,196	(97,912,127,636)	54,449,434,560
Allowance for stand-by credits	848,524,934	(116,851,174)	731,673,760
	153,210,087,130	(98,028,978,810)	55,181,108,320
Counter-cyclical allowance per SUGEF Directive 19-16	339,644	(339,644)	-
	¢ 153,210,426,774	(98,029,318,454)	55,181,108,320

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

As of September 30, 2021, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢60,782,581,595 (September 2020: ¢69,877,830,781).

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Notes to the Consolidated Financial Statements

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

Sector		Direct		Stand-by	
		2021	2020	2021	2020
Trade	¢	343,797,678,025	367,254,881,033	3,317,622	2,932,116
Services		932,082,803,472	894,780,734,806	53,138,980,654	47,439,348,573
Financial services		69,804,302,637	92,595,130,478	-	-
Mining		546,478,300	732,941,792	-	-
Manufacturing and quarrying		152,869,531,403	155,615,717,417	-	-
Construction		95,503,905,243	99,210,706,479	-	-
Agriculture and forestry		120,494,075,183	109,397,960,839	-	1,381,585
Livestock, hunting and fishing		75,684,763,557	76,698,200,926	-	-
Electricity, water, sanitation and other related sectors		470,585,921,919	487,368,244,731	-	-
Transportation and telecommunications		47,334,679,623	48,256,125,131	-	-
Housing		1,360,837,237,050	1,341,209,194,359	2,886,909	2,499,781
Personal or consumer		516,927,894,960	542,850,494,805	289,208,949,460	275,243,899,210
Tourism		271,205,889,388	203,048,044,872	128,030,979	122,950,000
	¢	<u>4,457,675,160,760</u>	<u>4,419,018,377,668</u>	<u>342,482,165,624</u>	<u>322,813,011,265</u>

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

		Direct		Stand-by	
		September 2021	September 2020	September 2021	September 2020
Central America	¢	<u>4,457,675,160,760</u>	<u>4,419,018,377,668</u>	<u>342,482,165,624</u>	<u>322,813,011,265</u>

The loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct		Stand-by	
		September 2021	September 2020	September 2021	September 2020
Back-to-back	¢	45,026,455,374	15,425,429,687	40,287,410	40,824,008
Letters of credit		-	-	-	-
Mortgage bond		-	95,246,803	-	-
Assignment of loans		75,940,340	334,129,919,966	-	1,810,485
Mortgage		2,075,094,733,922	1,759,627,688,276	98,434,206	7,973,450
Surety		411,046,582,895	844,419,870,795	3,197,631	1,381,585
Trust		514,202,220,014	394,410,237,908	14,960,528,067	-
Securities		637,970,793	2,026,597,741	-	-
Chattel mortgage		668,413,614,807	243,362,139,336	-	-
Other		743,177,642,615	825,521,247,156	327,379,718,310	322,761,021,737
	¢	<u>4,457,675,160,760</u>	<u>4,419,018,377,668</u>	<u>342,482,165,624</u>	<u>322,813,011,265</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

- a. Collateral: The Conglomerate accepts collateral guarantees - usually mortgages, chattel mortgages or securities - to secure its loans. The value of those guarantees is determined based on their fair value in the case of securities or, for mortgages and chattel mortgages, based on an appraisal made by an independent appraiser who determines the estimated fair value of land and buildings using comparable market offerings and prior appraisals.
- b. Personal: The Conglomerate also accepts sureties from individuals or legal entities. The Conglomerate evaluates the guarantor's ability to honor the debt obligations on the borrower's behalf, as well as the integrity of the guarantor's credit history.

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of September 30, 2021, 46.56% of the loan portfolio is secured by collateral guarantees (September 2020: 56.74%).

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

Loan portfolio concentration	Direct		Stand-by	
	September 2021	September 2020	September 2021	September 2020
¢1 to ¢3,000,000	¢ 135,681,840,923	142,580,477,615	91,355,383,176	87,882,925,479
¢3,000,001 to ¢15,000,000	549,095,667,619	592,271,467,006	192,955,807,406	184,083,888,054
¢15,000,001 to ¢30,000,000	446,832,884,130	457,889,134,585	9,383,753,795	7,780,266,858
¢30,000,001 to ¢50,000,000	478,331,789,501	479,885,547,161	3,473,177,474	2,829,317,445
¢50,000,001 to ¢75,000,000	433,829,950,401	423,321,835,590	2,748,618,562	2,869,780,734
¢75,000,001 to ¢100,000,000	216,280,727,681	205,966,661,422	1,019,836,873	1,286,378,070
¢100,000,001 to ¢200,000,000	236,713,189,283	240,782,509,082	3,284,295,971	3,078,638,695
More than ¢200,000,000	1,960,909,111,222	1,876,320,745,207	38,261,292,367	33,001,815,930
	<u>¢ 4,457,675,160,760</u>	<u>4,419,018,377,668</u>	<u>342,482,165,624</u>	<u>322,813,011,265</u>

The portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢667,538,909,373 (September 2020: ¢725,252,858,594), equivalent to 16.52% of the loan portfolio.

For credit risk management purposes, the Bank applies an internal model to estimate the loan portfolio's expected credit losses (ECL) and value at risk (VaR) over a 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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

As of September 30, 2021, all economic activities showed increases in the VaR of the loan portfolio, especially in activities such as livestock, transport, industry, consumer and trade. These increases are the result of higher levels of arrears in the loan portfolios for those activities, due to the difficult economic situation faced by the country in relation to the COVID-19 pandemic.

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

At the end of the period, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance	
Portfolio	September 2021
Investments in financial instruments at FVOCI	70,881,793

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Brokerage Firm may acquire the following instruments:

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

At the end of the period, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance	
Portfolio	September 2021
Investments measured at FVOCI	¢ 168,274,117

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

At the end of the period, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance	
Fund	September 2021
Investments measured at FVOCI	¢ 78,470,635

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

At the end of the period, an allowance for ECL was booked for the managed portfolio, as follows:

Loss allowance	
Portfolio	September 2021
Investments measured at amortized cost	¢ 7,278,193

Investments in financial instruments

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The instruments by model are as follows:

Date		Model 1 Amortized cost	Model 2 Comprehensive income	Total estimated loss
January	¢	5,707,886,149	907,120,180	6,615,006,329
February	¢	5,771,486,817	1,716,961,888	7,488,448,705
March	¢	5,860,177,013	1,912,333,323	7,772,510,336
April	¢	5,838,269,399	1,949,143,279	7,787,412,678
May	¢	5,921,652,314	1,891,224,378	7,812,876,692
June	¢	7,987,154,446	3,469,879,404	11,457,033,850
July	¢	7,785,330,700	3,527,314,024	11,312,644,724
August	¢	8,209,891,213	3,614,244,123	11,824,135,336
September	¢	8,078,216,328	3,730,823,727	11,809,040,055

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

		September 2021	
		Stage 1	Total
Investments in financial instruments	¢	843,817,682,453	843,817,682,453
Allowance		(2,687,989,001)	(2,687,989,001)
	¢	841,129,693,452	841,129,693,452

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

		September 2021	
		Stage 1	Total
Investments in financial instruments	¢	794,647,891,601	794,647,891,601
Allowance		(3,730,823,727)	(3,730,823,727)
	¢	790,917,067,874	790,917,067,874

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2021	
		Stage 1	Total
Investments in financial instruments	¢	2,349,301,235	2,349,301,235
	¢	2,349,301,235	2,349,301,235

As of September 30, 2021, the expected loss by currency is as follows:

		Absolute	Relative
Colones	¢	5,964,960,250	0.62%
US dollars		453,852,478	0.07%
	¢	6,418,812,728	0.40%

As of September 30, investments by geographic location are as follows:

		2021		
Country		Principal	Interests	Total
Costa Rica	¢	1,081,811,157,218	12,089,616,119	1,093,900,773,337
Panama		7,554,965,278	1,605,238	7,556,570,515
United States		475,203,963,967	1,575,438,849	476,779,402,816
Mexico		192,894,826	1,229,899	194,124,726
Canada		12,477,574,774	65,266,047	12,542,840,821
Venezuela		15,662,188,637	147,560,952	15,809,749,589
Europe		59,659,797,786	306,919,476	59,966,717,262
Asia		14,294,769,316	48,036,886	14,342,806,202
Australia		6,967,522,11	42,180,595	7,009,702,713
New Zealand		373,157,695	804,631	373,962,326
	¢	1,674,197,991,614	14,278,658,692	1,688,476,650,307

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Amounts arising from expected credit losses

- *Significant increase in credit risk*

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

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

- *Definition of default*

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

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

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

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

- Incorporation of forward-looking information

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- Measurement of expected credit losses

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

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

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

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

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.

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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.

- *Expected credit losses*

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

		Stage 1	Total
<u>Investment securities</u>			
Balance as of January 1, 2021	¢	3,725,042,715	3,725,042,715
Update of allowance		1,786,369	1,786,369
Allowance for new investments		5,005,531,524	5,005,531,524
Decrease in allowance		(2,314,109,451)	(2,314,109,451)
Balance as of September 30, 2021	¢	<u>6,418,251,157</u>	<u>6,418,251,157</u>

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Year on year, the LCR indicator in colones has remained mostly above 200%, locating at 218% at the September 2021 close, 28% higher than a year ago, as a result of an increase in the stock of liquid assets (HQLA) of 3.8% (¢44,500 million, mainly investments in the government), together with a decrease in net cash outflows of 9.7% (-¢59,500 million, mainly in wholesale and financial commitments). The LCR indicator remains considerably below the appetite level at 125%, equivalent to ¢514,600 million.

At the September 30, 2021 close, the LCR indicator in US dollars located at 261%, showing a significant decrease of 91% as a result of the payment made for the commitment of the international issue for a total of US\$310 million in April 2021. The foregoing was reflected in a decrease of HQLA) of 14.3% (US\$210 million, mainly in investments and cash and due from banks abroad, Level 1A), together with an increase in net outflows of 13.5% (US\$65 million, mainly due to the increase in wholesale and retail commitments). The LCR indicator is considerably below the appetite level at 125%, equivalent to US\$660 million.

As of September 30, the LCR's percentage indicator by currency is as follows:

<u>Indicator</u>	<u>2021</u>	<u>2020</u>	<u>Variation</u>	<u>Level</u>
LCR – colones	189%	218%	28%	Appetite
LCR - US dollars	352%	261%	-91%	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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	177,606,164,306	-	-	-	-	-	-	177,606,164,306
Minimum legal deposit in BCCR		-	247,519,124,290							
Investments		-	2,304,402,912	17,345,204,569	16,456,518,751	22,459,911,135	57,338,512,297	29,271,669,640	23,316,040,299	413,706,980,981
Loan portfolio		-		132,932,593,356	6,337,145,306	5,661,298,279	21,571,215,006	33,133,391,733	843,886,881,906	1,045,826,928,498
		219,482,491,081	-	74,415,549,195	46,533,780,400	37,394,145,953	88,061,788,614	130,148,041,977	2,564,434,266,533	3,160,470,063,753
Recovery of assets	¢	219,482,491,081	427,429,691,508	224,693,347,120	69,327,444,457	65,515,355,367	166,971,515,917	192,553,103,350	3,431,637,188,738	4,797,610,137,538
Obligations with the public	¢	-	2,460,226,124,679	139,022,511,247	183,766,844,665	195,250,397,581	348,517,183,147	248,987,824,829	159,710,095,716	3,735,480,981,864
Obligations with BCCR		-	-	-	-	-	-	-	168,418,644,412	168,418,644,412
Obligations with financial entities		-	53,599,176,006	99,644,330,600	7,811,792,471	4,638,192,047	23,846,045,058	37,283,189,141	43,107,970,981	269,930,696,304
Charges payable		-	8,600,026,873	2,812,130,993	2,239,301,307	1,767,374,998	2,742,327,820	1,384,316,667	2,132,963,873	21,678,442,531
Maturity of liabilities	¢	-	2,522,425,327,558	241,478,972,840	193,817,938,443	201,655,964,626	375,105,556,025	287,655,330,637	373,369,674,982	4,195,508,765,111
Difference	¢	219,482,491,081	(2,094,995,636,050)	(16,785,625,720)	(124,490,493,986)	(136,140,609,259)	(208,134,040,108)	(95,102,227,287)	3,058,267,513,756	602,101,372,427

(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	2,409,377,555,821
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	3,025,814,069,693
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	137,045,221,104
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	37,991,597,327
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	1,261,511,011
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	176,423,973,854
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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	390,521,518,873	-	-	-	-	-	390,720,509,836
Minimum legal deposit in BCCR		-	194,105,611,851	9,399,299,188	8,332,351,900	9,907,114,184	21,500,351,924	23,689,211,706	291,600,998,265
Investments		-	-	7,681,512,724	6,105,737,947	3,449,110,526	53,722,316,141	58,735,588,059	656,108,817,605
Loan portfolio		129,367,082,429	-	31,614,957,662	10,898,263,751	9,630,911,937	31,145,309,374	51,919,360,508	1,266,748,090,191
Recovery of assets	¢	129,367,082,429	584,627,130,724	48,695,769,574	25,336,353,598	22,987,136,647	106,367,977,439	134,344,160,273	2,605,178,415,897
Obligations with the public	¢	-	1,379,805,067,381	64,174,013,993	70,030,886,063	63,451,532,542	148,737,896,400	159,629,182,389	2,012,564,114,142
Obligations with financial entities		-	17,446,951,211	99,981,243,206	6,297,100	-	250,060,360	5,535,151,857	480,980,713,780
Charges payable		-	2,821,339,858	768,940,099	6,300,047,118	2,455,227,647	923,837,957	1,137,680,552	15,167,540,886
Maturity of liabilities	¢	-	1,400,073,358,450	164,924,197,298	76,337,230,281	65,906,760,189	149,911,794,717	166,302,014,798	2,508,712,368,808
Difference	¢	129,367,082,429	(815,446,227,726)	(116,228,427,724)	(51,000,876,683)	(42,919,623,542)	(43,543,817,278)	(31,957,854,525)	96,466,047,089

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	1,710,790,549,492
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	694,000,218,734
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	20,531,766,247
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	2,425,322,534,473
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)	99,616,767,430

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Management of liquidity risk

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

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

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

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

Management of liquidity risk

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Management of liquidity risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

Management of liquidity risk

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Market risk

i. Banco Nacional de Costa Rica

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

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

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

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

As of September 30, the portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		<u>Variation</u>
	<u>2021</u>	<u>2020</u>	
Colones	918,426,450,000	817,521,455,000	100,904,995,000
US dollars - local issuers	82,230,973	88,223,948	(5,992,975)
US dollars - international issuers	911,658,000	805,781,000	105,877,000

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

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

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

Management of market risks

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk exposure – trading portfolio:

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

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

	September 2021	September 2020
VaR indicator (99% confidence level)	0.89%	1.19%

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

Market risk exposure

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

The Brokerage Firm uses the historical method to calculate VaR, as established in the risk regulations issued by SUGEVAL, based on a confidence level of 95% and a 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 10-day holding period, based on the RiMer approach.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

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

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

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

Market risk management

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Market risk of investments

- i. Banco Nacional de Costa Rica

As of September 30, 2021, the Bank's consolidated VaR regarding the market value of investments did not decrease during the last year and located at the same level with respect to the same period for the previous year.

- Interest rate risk

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

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

<u>Type of risk</u>	<u>September</u> <u>2021</u>	<u>September</u> <u>2020</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk - In colones	0.21%	0.51%	-0.30%	Normal
Interest rate risk – In foreign currency	0.002%	0.25%	-0.25%	Normal

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, the interest rate terms for the Bank's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>									
Investments	¢	2,304,402,912	132,763,899,263	11,920,083,832	21,512,973,088	33,133,391,733	328,155,757,126	516,029,075,812	1,045,819,583,766
Loan portfolio		-	2,685,249,702,213	108,044,445,608	103,061,015,418	14,676,793,810	15,351,813,963	92,503,547,524	3,018,887,318,536
Recovery of rate-sensitive assets LC									
(A)	¢	2,304,402,912	2,818,013,601,476	119,964,529,440	124,573,988,506	47,810,185,543	343,507,571,089	608,532,623,336	4,064,706,902,302
Obligations with the public	¢	-	227,781,120,207	395,722,642,309	375,105,556,025	286,533,975,111	103,811,882,810	67,539,261,935	1,456,494,438,397
Obligations with BCCR		-	14,350,000,000	-	-	-	-	169,034,639,545	183,384,639,545
Obligations with financial entities		-	119,280,016	-	-	-	-	35,149,399,507	35,268,679,523
Maturity of rate-sensitive liabilities LC									
(B)	¢	-	242,250,400,223	395,722,642,309	375,105,556,025	286,533,975,111	103,811,882,810	271,723,300,987	1,675,147,757,465
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,304,402,912	2,575,763,201,253	(275,758,112,869)	(250,531,567,519)	(238,723,789,568)	239,695,688,279	336,809,322,349	2,389,559,144,837
<i>Foreign currency (FC)</i>									
Investments	¢	-	7,287,564,965	9,427,343,161	53,722,304,062	55,178,714,825	229,984,872,874	288,733,534,358	644,334,334,245
Loan portfolio		-	1,060,622,643,661	39,500,769,785	23,102,605,799	2,539,893,038	21,220,933,676	59,896,297,429	1,206,883,143,388
Recovery of rate-sensitive assets FC									
(C)	¢	-	1,067,910,208,626	48,928,112,946	76,824,909,861	57,718,607,863	251,205,806,550	348,629,831,787	1,851,217,477,633
Obligations with the public	¢	-	154,544,824,151	140,227,000,084	149,841,281,415	164,208,876,869	59,069,935,196	309,501,881,234	977,393,798,949
Obligations with BCCR		-	629,710,000	-	-	-	-	-	629,710,000
Obligations with entities		-	10,549,138,867	2,014,161,546	70,513,301	-	-	118,601,470,530	131,235,284,244
Maturity of rate-sensitive liabilities FC									
(D)	¢	-	165,723,673,018	142,241,161,630	149,911,794,716	164,208,876,869	59,069,935,196	428,103,351,764	1,109,258,793,193
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	902,186,535,608	(93,313,048,684)	(73,086,884,855)	(106,490,269,006)	192,135,871,354	(79,473,519,977)	741,958,684,440
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,304,402,912	3,885,923,810,102	168,892,642,386	201,398,898,367	105,528,793,406	594,713,377,639	957,162,455,123	5,915,924,379,935
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	407,974,073,241	537,963,803,939	525,017,350,741	450,742,851,980	162,881,818,006	699,826,652,751	2,784,406,550,658
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,304,402,912	3,477,949,736,861	(369,071,161,553)	(323,618,452,374)	(345,214,058,574)	431,831,559,633	257,335,802,372	3,131,517,829,277

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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 are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>									
Investments	¢	2,728,934,713	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 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		-	134,296,131	-	-	-	-	30,701,720,820	30,836,016,951
Maturity of rate-sensitive liabilities 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 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 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
Difference in LC + FC, 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds has a slight increasing trend, with a maximum of 2.16% and a minimum of 0.85% for an average of 1.33%, equivalent to ¢175.32 million. As of September 30, 2021, the indicator closes at 2.14% (September 2020: 1.74%), showing an increase due to the portfolio's portion of fixed-rate investments, because the indicator shows the portfolio volatility with respect to market interest rates.

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

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

As of September 30, 2021, the Insurance Brokerage Firm has investments in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. They are related to financial assets subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores, in its role as manager of the portfolio of BN Corredora with quarterly reports to the Insurance Brokerage Firm. The Insurance Brokerage Firm holds no liabilities subject to interest rate variations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Currency risk

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

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

i. Banco Nacional de Costa Rica

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

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

The result is as follows:

<u>Type of risk</u>	<u>September 2021</u>	<u>September 2020</u>	<u>Variation</u>	<u>Level</u>
Currency risk	0.62%	1.61%	-0.99%	Normal

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		September 2021	September 2020
<i><u>Assets:</u></i>			
Cash and due from banks	US\$	1,028,976,641	1,144,861,122
Investments in financial instruments		1,040,136,534	978,124,552
Loan portfolio		1,938,749,912	1,918,674,972
Accounts and accrued interest receivable		570,475	392,777
Investments in other companies		118,371,027	117,392,097
Other assets		5,157,256	1,369,569
	US\$	<u>4,131,961,845</u>	<u>4,160,815,089</u>
<i><u>Liabilities:</u></i>			
Obligations with the public	US\$	3,158,555,395	2,788,936,473
Obligations with entities		773,272,934	1,162,551,343
Accounts payable and provisions		11,645,938	12,877,181
Other liabilities		3,424,147	4,139,294
Subordinated obligations		75,363,587	98,545,571
	US\$	<u>4,022,262,001</u>	<u>4,067,049,862</u>
Excess of assets over liabilities in US dollars	US\$	<u>109,699,844</u>	<u>93,765,227</u>
		Euro	
		September 2021	September 2020
<i><u>Assets:</u></i>			
Cash and due from banks	€	43,320,336	40,071,264
	€	<u>43,320,336</u>	<u>40,071,264</u>
<i><u>Liabilities:</u></i>			
Obligations with the public	€	42,981,267	38,723,961
Obligations with entities		815,490	713,663
Accounts payable and provisions		486,884	16,407
Other liabilities		-	204
	€	<u>44,283,641</u>	<u>39,454,235</u>
(Deficit) excess of assets over liabilities in euro	€	<u>(963,305)</u>	<u>617,029</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU	
		September 2021	September 2020
<u>Assets:</u>			
Loan portfolio		1,290,266	2,709,081
	UD	1,290,266	2,709,081
<u>Liabilities:</u>			
Accounts payable and provisions	UD	131,362	208,573
Other liabilities		-	429
	UD	131,362	209,002
Excess of assets over liabilities in DU	UD	1,158,904	2,500,079

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

As of September 30, the valuation in colones of monetary assets and liabilities in foreign currency gave rise to foreign exchange gains and losses, as follows:

		September 2021	September 2020
Foreign exchange gains	¢	66,674,075,955	332,662,475,342
Foreign exchange losses		(66,740,694,599)	(333,841,601,733)
Net loss	¢	(66,618,644)	(1,179,126,391)

Additionally, the valuation of other assets and other liabilities as of September 30 gave rise to gains and losses, which are booked in "Other operating income" and "Other operating expenses", respectively, as follows:

		September 2021	September 2020
Gain on valuation of other assets	¢	66,908,218,367	1,076,859,863
Loss on valuation of other liabilities		(66,974,371,658)	(1,274,699,342)
Net loss	¢	(66,153,291)	(197,839,479)

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, 7.86% 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 8.61% (¢1,218.59 million), compared to September 30, 2020, where it closed at 6.74%.

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

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

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

e) Operational risk

i. Banco Nacional de Costa Rica

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

That policy is implemented through a management framework that includes:

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

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

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

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

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



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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.
- Communication: Senior management informs employees of risk management trends and strategies as well the results of assessments through meetings with employees or announcements.

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

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

Management of this risk is the responsibility of all business units within the Brokerage Firm and 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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

Litigation risk: The 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 ECL and VaR.

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 ECL of ¢35,266,894 (December and September 2020: ¢43,447,803 and ¢7,999,063, respectively) that covers the lawsuits against the Pension Fund Manager with a probability of an unfavorable outcome, out of eight pending lawsuits, most of which are in first instance.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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, 2021, the Bank is above the minimum level required by applicable regulations.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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.

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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: consolidated statement of financial position, consolidated statement of comprehensive income, CAMELS indicators, budget execution, and capital adequacy.

As of September 30, 2021, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

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

COVID 19 implications for the Bank

The Coronavirus (COVID-19) pandemic, declared as such by the World Health Organization, has international implications. On one hand, it has caused a large number of deaths. On the other hand, markets and productive sectors have been heavily affected, due to the fear of rapid spread of the disease and to the preventive measures taken by some governments, including: social distancing, cancellation of mass events, decrease in interest rates, closing of borders, among other. This has strongly impacted the countries' economies and their production dynamic.

According to the IMF, the recovery of the global economy will be faster than initially expected, with growth projections for 2021 and 2022 up to 6% and 4.4%, respectively, thanks to economic stimulation measures in countries such as the United States, as well progress with vaccination, although it has alerted of differences in the rate of recovery between different countries and economic sectors.

Factors that could affect the growth rate include delays in vaccination and difficulty controlling new variants of SARS-CoV-2. Until September 2021, it is estimated that more than 3,400 million doses of the vaccine have been applied and 940 million people are fully vaccinated, which represents 12% of the global population.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(a) Financially

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

(b) Credit risk

- A simplified processing system was established for payment arrangements, extensions, and restorations, offered to specific customer profiles.
- Strengthening of collection management.
- Ongoing monitoring of the internal policies and guidelines, in order to promote effective payment arrangements with customers.
- Monitoring market conditions to identify potential impacts, given the country's economic, political and sanitary conditions.

(c) Interest rate risk

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

(d) Liquidity risk

- Daily monitoring of the main liquidity indicators.
- Potential lines of credit with foreign entities have been processed.
- Weekly stress testing of liquidity indicators.
- The liquidity coverage ratio for 5 and 10 days is sent weekly as part of the information requested by the Central Bank for analysis of the last-minute loan requests.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(e) Price risk

- Ongoing monitoring of concentration of instruments in the investment portfolio by currency, sector, rating, and others.
- Monitoring of prices and ratings of local and international securities.
- Constant monitoring of the main price risk indicators, including internal VaR and SUGEF VaR, as well as stress testing to determine possible impacts on solvency ratios.

(f) Currency risk

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction		September 2021	December 2020	September 2020
<i>Cash and due from banks:</i>					
Checking account – colones (Note 9)	Minimum legal deposit	¢	464,500,805,775	471,119,415,447	480,791,093,730
Checking account – US dollars (Note 9)	Minimum legal deposit		306,507,898,918	303,912,606,319	289,106,108,045
Checking account – euro (Note 9)	Minimum legal deposit		4,715,867,302	4,365,899,890	4,145,811,323
Other cash and due from banks (Note 9)	Custody of BCAC liabilities		-	1,142,835,066	1,133,876,616
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments		-	-	14,177,663
Other cash and due from banks (Note 9)	Contribution to FOGABONA		482,138,390	265,100,489	310,886,932
Other cash and due from banks (Note 9)	Contingent guarantee of the deposits guarantee fund (Fondo de Garantía de Depósitos, FGD)		119,336,027,871	-	-
		¢	<u>895,542,738,256</u>	<u>780,805,857,211</u>	<u>775,501,954,309</u>
<i>Investments in financial instruments:</i>					
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢	-	8,649,884,640	15,451,825,249
Investments in financial instruments	Liquidity market operations		28,535,439,191	33,429,088,935	38,584,096,309
Securities issued by BCCR and the Government	Investments securing repurchase agreements		2,766,000,000	3,053,900,150	3,067,055,230
External debt bonds	Nomura Bank guarantee		60,185,010,042	59,031,542,209	58,112,710,762
External debt bonds	JP-SWAPS guarantee		-	9,178,308,496	1,229,174,243
External debt bonds	JPMIM-ASSET-COMPROME		-	1,240,773,951	45,490,725
External debt bonds	SINPE guarantee		210,860,291,691	-	-
Term Certificate of Deposit	Nomura Bank guarantee		25,188,400,000	24,692,000,000	24,267,200,000
		¢	<u>327,535,140,924</u>	<u>139,275,498,381</u>	<u>140,757,552,518</u>
Other assets (Note 17)	Security deposits	¢	<u>716,577,654</u>	<u>701,139,441</u>	<u>809,858,327</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, the Brokerage Firm has restricted assets in the amount of ¢28,549,995,535 (December and September 2020: ¢42,093,256,466 and ¢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.

(8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 9)	¢ 27,554,033,660	18,728,211,563	15,456,562,521
Allowance for impairment of transactions with related parties	(15,365,000)	-	-
Investments in financial instruments and accrued interest receivable (2)	29,087,096,282	13,138,269,284	11,370,840,723
Investments in other companies (3)	74,488,795,940	72,325,798,277	71,168,814,049
	¢ <u>131,114,560,882</u>	<u>104,192,279,124</u>	<u>97,996,217,293</u>
<u>Liabilities:</u>			
Demand obligations with entities (4)	17,107,829	817,312,947	1,253,183,952
Accounts due to related parties (5)	4,383,294	1,253,627	1,080,372
Term obligations with entities	-	-	600,000,000
	¢ <u>21,491,123</u>	<u>818,566,574</u>	<u>1,854,264,324</u>
<u>Income:</u>			
Gain on investments in other foreign companies	733,304,503	876,994,771	907,111,819
	<u>1,388,900,581</u>	<u>876,994,771</u>	<u>907,111,819</u>
<u>Expenses:</u>			
Operating expenses (6)	13,961,813	42,738,454	36,696,201
	¢ <u>13,961,813</u>	<u>42,738,454</u>	<u>36,696,201</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The aforementioned balances and transactions with related parties correspond to:

- (1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A.
- (2) Investments in the share capital of entities over which the Bank exercises control or significant influence
- (3) Movements in transit of the subsidiaries' checking accounts with the Bank.
- (4) Balance of the subsidiaries' checking accounts with the Bank
- (5) Balances of the subsidiaries' term certificates of deposit with the Bank
- (6) Services of the Bank's procedures and self-issue insurance unit (*Unidad de Trámites y Autoexpedibles*) and custody rental system.

a) Compensation to key personnel

Compensation to key personnel is as follows:

	September 2021	December 2020	September 2020
Short-term benefits	¢ 1,584,591,202	1,994,768,937	1,250,340,156
Long-term benefits	205,996,856	259,319,962	162,544,220
Per diem – Board of directors	151,048,569	202,058,176	150,995,962
	¢ 1,941,636,627	2,456,147,075	1,563,880,338

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(9) Cash and cash equivalents

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

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Cash and due from banks	¢	1,273,634,653,388	1,383,902,440,319	1,316,623,469,390
Investments with maturities of less than two months		<u>155,361,392,246</u>	<u>99,286,190,041</u>	<u>241,183,110,681</u>
	¢	<u>1,428,996,045,634</u>	<u>1,483,188,630,360</u>	<u>1,557,806,580,071</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Cash and due from banks is as follows:

	September 2021	December 2020	September 2020
Cash on hand and in vaults	¢ 78,822,869,049	71,803,663,890	55,727,836,735
Cash in transit	50,208,205,395	27,571,913,455	41,422,323,604
Checking account in BCCR (1)	45,171,667,287	35,863,230,024	61,372,469,752
Minimum legal deposits in BCCR (1)	660,136,311,960	786,744,119,464	780,646,030,717
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	196,909,240	163,010,654	109,359,331
Checking accounts and other demand accounts in private financial entities	899,686,807	840,634,935	488,344,966
Overnight deposits in local financial entities	400,000,000	400,000,000	450,000,000
Checking accounts in foreign financial entities	276,495,289,352	431,725,189,207	351,607,191,713
Deposits and other demand accounts in foreign financial entities	1,196,305,780	634,807,976	53,144,419
Checking accounts and demand deposits in related parties (Note 3)	27,554,033,660	18,728,211,563	15,456,562,521
Overnight deposits in foreign financial entities	890,402,446	1,739,101,030	2,752,608,112
Transfers through the Interbank Electronic Payment System (SINPE)	8,154,395,051	2,067,809,169	2,203,666,500
Local notes receivable	3,117,773,790	3,502,281,731	2,515,933,524
Foreign notes receivable	572,637,310	710,531,665	359,056,285
Margin calls – derivative financial instruments (Note 7)	-	-	14,177,663
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	482,138,390	265,100,489	310,886,931
Contingent guarantee of the deposits guarantee fund (Fondo de Garantía de Depósitos, FGD)	119,336,027,871	-	-
Other restricted cash and due from banks (2)	-	1,142,835,067	1,133,876,617
	¢ 1,273,634,653,388	1,383,902,440,319	1,316,623,469,390

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(10) Investments in financial instruments

Investments in financial instruments are as follows:

	September 2021	December 2020	September 2020
Investments at fair value through profit or loss	¢ 37,416,639,367	23,465,673,087	20,524,238,772
Investments at fair value through other comprehensive income	794,647,891,595	723,002,449,515	809,950,432,152
Investments at amortized cost	843,817,682,454	609,412,003,167	645,566,633,811
	¢ 1,675,882,213,415	1,355,880,125,769	1,476,041,304,735
Interest rate futures – Hedges	11,774,483,357	15,753,371,710	17,249,216,592
Sale of FX futures – Other than hedges	390,632	-	-
Allowance for impairment of investments	(2,687,989,001)	(2,424,857,612)	(355,194,562)
Allowance for impairment of derivative instruments other than hedges	-	(58,698)	-
Accrued interest receivable on investments	14,278,658,692	19,648,169,663	14,375,652,605
	¢ 1,699,247,757,102	1,388,856,750,831	1,507,310,979,370

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Investments at fair value through profit or loss

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

	September 2021	December 2020	September 2020
<u>Local issuers</u>			
Private banks	-	-	43,256,284
Private issuers	37,416,639,368	23,465,673,087	20,480,982,488
¢	<u>37,416,639,368</u>	<u>23,465,673,087</u>	<u>20,524,238,772</u>

b) Investments at fair value through other comprehensive income

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

	September 2021	December 2020	September 2020
<u>Local issuers</u>			
Government of Costa Rica	¢ 509,163,321,637	393,816,770,016	430,217,277,690
BCCR	39,147,647,907	17,463,207,857	15,044,376,516
State-owned banks	7,336,324,107	5,637,250,549	7,890,225,178
Private banks	631,335,905	-	-
Private issuers	2,766,000,000	3,438,576,362	3,453,381,793
¢	<u>559,044,629,556</u>	<u>420,355,804,784</u>	<u>456,605,261,177</u>
	<u>September 2021</u>	<u>December 2020</u>	<u>September 2021</u>
<u>Foreign issuers</u>			
Governments	¢ 50,158,433,596	78,890,923,811	131,126,084,630
Private issuers	89,137,392,407	108,960,124,861	97,630,714,866
Private banks	96,307,436,042	114,795,596,059	124,588,371,479
	<u>235,603,262,045</u>	<u>302,646,644,803</u>	<u>353,345,170,975</u>
¢	<u>794,647,891,601</u>	<u>723,002,449,515</u>	<u>809,950,432,152</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Investments at amortized cost

Investments at amortized cost are as follows:

		September 2021	December 2020	September 2020
<u>Local issuers</u>				
Government of Costa Rica	¢	257,844,635,493	256,575,723,320	305,714,013,551
BCCR		217,755,290,754	81,767,031,269	192,293,701,644
Private banks		3,778,260,000	-	-
Private issuers		7,655,923,834	35,579,860,552	-
	¢	<u>487,034,110,081</u>	<u>373,922,615,141</u>	<u>498,007,715,195</u>
<u>Foreign issuers</u>				
Governments	¢	313,119,724,908	187,044,327,663	126,184,592,823
Private issuers		6,152,363,009	4,868,656,150	1,590,536,869
Private banks		37,511,484,455	43,576,404,213	19,783,788,924
		<u>356,783,572,372</u>	<u>-</u>	<u>147,558,918,616</u>
		<u>843,817,682,453</u>	<u>235,489,388,026</u>	<u>645,566,633,811</u>
	¢	<u>1,675,882,213,422</u>	<u>609,412,003,167</u>	<u>1,476,041,304,735</u>

The valuation of available-for-sale investments and restricted financial instruments gives rise to unrealized gains, net of deferred tax, in the amount of ¢5,216,639,643 (December and September 2020: unrealized gains in the amount of ¢2,061,632,488 and ¢3,284,564,801, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢15,753,567,121 (December and September 2020: unrealized gains in the amount of ¢10,536,927,179 and ¢11,759,859,491, respectively).

(11) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ Derivatives as risk hedging instruments

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 in US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Derivative financial instruments are as follows:

		September 2021		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 5,827,024	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	2,711,489	
Bank of America		173,588,000	10,115,015	
	US\$	320,121,000	US\$ 18,653,529	
Amount in colones	¢	<u>201,583,394,910</u>	¢ <u>11,746,313,671</u>	
Chicago Board of Trade	US\$	10,400,000	US\$ 40,242	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>6,548,984,000</u>	¢ <u>25,340,846</u>	
		December 2020		Purpose
Issuing bank		Notional amount	Valuation	
CitiBank	US\$	100,000,000	US\$ 7,396,127	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan		46,533,000	3,441,640	
Bank of America		173,588,000	12,838,790	
	US\$	320,121,000	US\$ 23,676,557	
Amount in colones	¢	<u>197,610,693,300</u>	¢ <u>14,615,538,723</u>	
Bank of America	US\$	60,200,000	US\$ 352,970	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan		250,000,000	1,457,517	
	US\$	310,200,000	US\$ 1,810,487	
Amount in colones	¢	<u>191,486,460,000</u>	¢ <u>1,117,613,736</u>	
Chicago Board of Trade	US\$	12,200,000	US\$ 11,171	Standardized futures contracts (maturing in 2021)
Amount in colones	¢	<u>7,531,060,000</u>	¢ <u>6,896,000</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2020		Purpose
Issuing bank		Notional amount	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	¢	194,211,008,280	¢ 15,756,447,497	
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	¢	188,192,136,000	¢ 1,491,494,120	
Chicago Board of Trade	US\$	12,600,000	US\$ (14,656)	Standardized futures contracts (maturing in 2020)
Amount in colones	¢	7,644,168,000	¢ (8,891,690)	

The total notional amount of US\$330,521,000, equivalent to ¢208,132,378,910 (December 2020: US\$642,521,000, equivalent to ¢396,628,213,300 and US\$642,921,000, equivalent to ¢390,047,312,280, respectively) is booked under “Other debit memoranda accounts” (see Note 29).

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

The Bank booked an increase in the fair value of these swaps in the amount of US\$18,653,529 equivalent to ¢11,746,313,671 (December and September 2020: US\$25,487,044, equivalent to ¢15,733,152,459 and US\$28,432,150, equivalent to ¢17,249,216,592, respectively) and a decrease in the fair value of these hedges in the amount of US\$4,492 equivalent to ¢2,828,840 (September 2020: US\$16,758 equivalent to ¢10,166,665) (see Note 10).

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Rate of effectiveness		
	September 2021	December 2020	September 2020
10-year issue (maturing in 2023)	95.66%	94.58%	94.58%

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

- a 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2021
- only a portion of the bond cash flows is hedged (corresponding to the 5-year and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

Standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio. The Bank booked a notional amount of US\$10,400,000, equivalent to ¢6,548,984,000 (December and September 2020: US\$12.2 million, equivalent to ¢7,531,060,000 and US\$12.6, equivalent to ¢7,644,168,000, respectively) for the sale and purchase of these futures contracts.

The Bank booked an increase in the fair value of futures contracts in the amount of US\$44,734, equivalent to ¢28,169,686 (December and September 2020: US\$11,171, equivalent to ¢6,896,000 and US\$2,102, equivalent to ¢1,274,975, respectively), as well as a decrease in the fair value of futures contracts in the amount of US\$4,492, equivalent to ¢2,828,840 (September 2020: US\$16,758 equivalent to ¢10,166,665).

As of September 30, 2021, the Bank booked an increase in the fair value of these forwards in the amount of ¢390,632 under asset accounts.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2021	September 2020
Gains on derivative financial instruments	¢ 5,654,827,206	18,739,792,772
Losses on derivative financial instruments	(6,049,960,203)	(3,607,826,713)
Net (losses) gains	¢ (395,132,997)	15,131,966,059

(12) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	September 2021	December 2020	September 2020
Trade	¢ 331,760,331,755	366,543,473,364	356,544,318,046
Services	907,957,470,744	882,958,009,616	876,201,071,463
Financial services	69,371,635,342	86,384,902,878	92,066,007,927
Mining	525,430,053	723,836,045	702,249,263
Manufacturing and quarrying	148,943,351,322	154,439,840,021	152,288,266,976
Construction	93,518,833,495	97,117,113,215	97,601,935,746
Agriculture and forestry	116,577,206,512	119,176,139,304	106,050,904,926
Livestock, hunting and fishing	73,101,111,104	73,609,723,660	74,420,132,073
Electricity, water, sanitation and other related sectors	466,415,691,578	483,518,311,261	483,889,847,082
Transportation and telecommunications	44,239,205,962	46,878,351,392	46,026,664,273
Housing	1,322,297,997,088	1,317,083,078,572	1,310,199,174,336
Personal or consumer loans	499,831,963,949	528,808,645,806	524,419,882,415
Tourism	257,320,761,962	201,470,968,486	196,007,308,267
Total direct loans	4,331,860,990,866	4,358,712,393,620	4,316,417,762,793
Incremental direct costs related to loans	3,490,573,408	3,756,519,754	3,836,314,971
(Deferred income from loan portfolio)	(33,947,580,223)	(33,106,164,873)	(32,679,657,179)
Accrued interest receivable	125,814,169,894	122,742,551,278	102,600,614,875
Allowance for loan losses	(153,210,426,773)	(155,527,961,609)	(149,494,393,642)
Loan portfolio	¢ 4,274,007,727,172	4,296,577,338,170	4,240,680,641,818

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Annual interest rates on loans receivable are as follows:

Currency	September 2021		December 2020		September 2020	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	0.55% to 45.00%	12.42%	2.00% to 45.00%	13.32%	2.00% to 45.00%	13.79%
US dollars	0.15% to 29.00%	7.52%	0.24% to 31.00%	7.47%	0.29% to 31.50%	7.61%
DU	3.85% to 10.00%	5.68%	3.85% to 10.00%	5.67%	3.85% to 10.00%	5.67%

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

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2021	December 2020	September 2020
Current	¢ 4,031,996,652,463	4,117,866,391,612	3,966,099,395,374
1 to 30 days	98,943,118,782	39,216,725,680	121,003,730,810
31 to 60 days	30,889,988,406	30,186,427,162	55,162,037,846
61 to 90 days	25,891,686,212	12,005,404,085	30,165,594,493
91 to 120 days	14,523,688,509	12,340,866,689	7,065,790,745
121 to 180 days	10,311,527,802	19,995,685,880	6,501,580,709
More than 180 days	119,304,328,692	127,100,892,512	130,419,632,816
	4,331,860,990,866	4,358,712,393,620	4,316,417,762,793
Incremental direct costs related to loans	3,490,573,408	3,756,519,754	3,836,314,971
(Deferred income from loan portfolio)	(33,947,580,223)	(33,106,164,873)	(32,679,657,179)
Accrued interest receivable	125,814,169,894	122,742,551,278	102,600,614,875
Allowance for loan losses	(153,210,426,773)	(155,527,961,609)	(149,494,393,642)
¢	4,274,007,727,172	4,296,577,338,170	4,240,680,641,818

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

Movement in the allowance for loan losses is as follows:

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Opening balance	¢ 155,527,961,609	118,507,110,835	118,507,110,835
Allowance expense for the period (Note 36)	69,504,941,187	68,378,115,626	55,378,014,676
Write-offs	(72,646,108,732)	(34,781,370,191)	(27,024,423,868)
Adjustments due to reclassification of allowance	-	147,982,736	147,982,736
Foreign exchange differences	823,632,710	3,276,122,603	2,485,709,263
Closing balance	¢ <u>153,210,426,773</u>	<u>155,527,961,609</u>	<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.

The allowance for stand-by credits is as follows:

	<u>September 2021</u>
Opening balance	¢ 717,444,504
Allowance expense for the year (Note 36)	120,000,001
Foreign exchange differences	(1,685,969,439)
Closing balance	¢ <u>(848,524,934)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Accounts and fees and commissions receivable

Accounts and fees and commissions receivable are as follows:

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Fees and commissions	¢ 1,709,566,299	1,378,393,151	1,488,566,080
Accounts receivable for brokerage operations	-	5,728,706	-
Accounts due from employees	21,490,250	19,025,296	65,199,005
Deferred tax (Note 21-b)	2,595,468,258	1,686,064,546	1,354,292,259
Income tax receivable (1)	233,155,983	321,987,420	219,983,768
Value added tax	29,875,117	17,962,034	10,712,696
Sundry accounts receivable related to credit cards	363,279,886	237,913,865	185,793,079
Other expenses receivable	22,970,006	22,525,394	22,026,349
Other accounts receivable	1,568,128,700	1,291,096,921	1,211,592,877
Credit fraud	748,936,955	748,936,955	748,936,955
Misappropriation and theft	1,619,400,478	1,639,896,256	1,696,635,400
Stealing of information	-	200,323,088	216,950,932
Input, maintenance or upload errors	-	185,347,393	213,633,279
Accrued interest receivable on other sundry accounts receivable	3,088,317	2,991,594	9,363,276
Allowance for impairment of accounts receivable	<u>(4,191,491,687)</u>	<u>(4,217,937,702)</u>	<u>(4,384,402,993)</u>
	¢ <u>4,723,868,562</u>	<u>3,540,248,917</u>	<u>3,059,282,962</u>

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

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Banco Nacional de Costa Rica	¢ 96,224,993	143,613,342	98,714,970
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	50,968	79,766	63,128
BN Sociedad Corredora de Seguros, S.A.	136,880,023	-	121,205,670
	¢ <u>233,155,984</u>	<u>143,693,108</u>	<u>219,983,768</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Opening balance	¢	4,217,937,702	4,439,440,280	4,439,440,280
Allowance expense (Note 39)		670,623,773	1,080,131,153	857,321,127
Decrease in allowance (Note 40)		(426,607,080)	(752,680,302)	(521,645,188)
Write-offs		(276,210,927)	(574,231,463)	(404,782,704)
Foreign exchange differences		5,748,220	25,278,034	14,069,478
Closing balance	¢	<u>4,191,491,688</u>	<u>4,217,937,702</u>	<u>4,384,402,993</u>

(14) Foreclosed assets

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

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Assets acquired in lieu of payment	¢	91,982,358,414	98,844,527,473	104,039,256,082
Idle property, furniture and equipment		55,884,629	55,884,629	55,884,629
Allowance for impairment of foreclosed assets and per legal requirements		(60,782,581,595)	(66,534,513,087)	(69,877,830,781)
	¢	<u>31,255,661,448</u>	<u>32,365,899,015</u>	<u>34,217,309,930</u>

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

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Opening balance	66,534,513,087	63,718,411,084	63,718,411,084
Allowance expense (Note 39)	795,212,761	9,628,924,296	8,396,912,289
Decrease in allowance	(6,547,144,253)	(6,812,822,294)	(2,237,492,591)
Closing balance	<u>60,782,581,595</u>	<u>66,534,513,087</u>	<u>69,877,830,781</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(15) Investments in other companies

Investments in other companies are as follows:

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Investment in other financial and non-financial entities (1)	¢	50,623,300	50,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA)				
(Note 8) (2)		<u>74,539,419,240</u>	<u>72,376,421,577</u>	<u>71,219,437,349</u>
	¢	<u>74,590,042,540</u>	<u>72,427,044,877</u>	<u>71,270,060,649</u>

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

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

(2) The Bank holds 49% ownership interest in BICSA, which as of September 30, 2021 is represented by 6,506,563 ordinary shares with a par value of US\$10.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Historical cost and depreciation

Property, furniture and equipment is as follows:

		September 2021					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	4,281,149,677	70,673,112,451	65,964,459,511	52,338,212,534	341,154,043	193,598,088,216
Revalued cost at beginning of period		49,374,508,221	65,580,690,063	(10,298,846)	(34,287,875)	-	114,910,611,563
Additions		-	535,657,471	4,776,563,247	1,437,769,115	64,027,113	6,814,016,946
Disposals		-	-	(1,272,917,258)	(3,111,511,600)	-	(4,384,428,858)
Reclassifications		-	-	12,769,707	(12,769,707)	-	-
Closing balance		53,655,657,898	136,789,459,985	69,470,576,361	50,617,412,467	405,181,156	310,938,287,867
<u>Accumulated depreciation:</u>							
Opening balance		-	48,747,685,316	39,861,872,242	40,281,237,135	252,905,265	129,143,699,958
Depreciation expense on historical cost		-	1,203,643,294	5,085,372,268	3,465,106,007	14,391,416	9,768,512,985
Depreciation expense on revalued cost		-	665,154,799	-	-	-	665,154,799
Disposals		-	-	(1,170,021,206)	(3,013,735,354)	-	(4,183,756,560)
Adjustments		-	-	183,809	-	-	183,809
Reclassifications		-	-	11,275,421	(11,275,421)	-	-
Closing balance	¢	-	50,616,483,409	43,788,682,534	40,721,332,367	267,296,681	135,393,794,991
Net closing balance	¢	53,655,657,898	86,172,976,576	25,681,893,827	9,896,080,100	137,884,475	175,544,492,876

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2020					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,281,149,677	70,302,884,014	64,407,050,144	52,648,710,467	357,222,206	191,997,016,508
Revalued cost at beginning of year		49,385,684,604	65,580,690,062	(9,833,908)	(33,717,530)	-	114,922,823,228
Additions		-	320,773,180	4,845,341,751	2,241,402,585	-	7,407,517,516
Asset 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)	-
Closing balance		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>							
Opening balance		-	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)	-
Closing balance	¢	-	48,120,703,667	41,449,722,757	40,175,343,290	257,035,085	130,002,804,799
Net closing balance	¢	53,655,657,898	88,040,271,804	24,442,779,313	10,444,374,428	93,173,958	176,676,257,401

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, the appraisals of the Conglomerate's land and buildings were performed by an independent appraiser. The net realizable value obtained was compared to the carrying amount to determine the equity increase and the effects on the accumulated depreciation and revaluation accounts. Based on the valuation techniques used, those items are classified as Level 3 of the fair value hierarchy.

b) Right-of-use assets

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

		September 2021			
		Right of use of land	Right of use of building	Right of use of vehicles	Total
<u>Cost:</u>					
Historical cost at beginning of period	¢	5,571,583	39,540,817,132	277,254,296	39,823,643,011
Additions		-	43,766,790	-	43,766,790
Disposals		-	(506,189,721)	(160,028,888)	(666,218,609)
Adjustments		(5,571,583)	(628,364,116)	(9,595,210)	(643,530,909)
Closing balance		-	38,450,030,085	107,630,198	38,557,660,283
<u>Accumulated depreciation:</u>					
Opening balance		-	5,776,635,561	192,006,037	5,968,641,598
Depreciation expense on historical cost		-	2,173,459,058	50,860,126	2,224,319,184
Disposals		-	(62,395,599)	(160,028,892)	(222,424,491)
Adjustments		-	(11,215,236)	(2,114,610)	(13,329,846)
Closing balance	¢	-	7,876,483,784	80,722,661	7,957,206,445
Net closing balance		-	30,573,546,301	26,907,537	30,600,453,838

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) *Lease liabilities*

i. *Amounts recognized in profit or loss*

The amounts recognized in profit or loss are as follows:

	September 2021	December 2020	September 2020
Interest on lease liability	¢ <u>2,580,940,477</u>	<u>3,642,278,776</u>	<u>2,753,391,917</u>
Expenses for leases of low-value assets, excluding short-term assets	¢ <u>412,429,987</u>	<u>132,239,095</u>	<u>728,850</u>

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

	September 2021	December 2020	September 2020
Total cash outflows for leases	¢ <u>(812,446,294)</u>	<u>2,051,296,709</u>	<u>(1,354,437,519)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2021</u>
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1) ¢	20,650,401	109,029,869	161,898,938
Cost of issue of financial instruments, net (2)	256,843,582	383,327,082	484,664,508
Cost of subordinated debt project	163,055,931	215,689,311	237,945,917
Other deferred charges	31,935,152,290	42,613,181,701	46,178,181,398
	<u>32,375,702,204</u>	<u>43,321,227,963</u>	<u>47,062,690,761</u>
<i><u>Intangible assets:</u></i>			
Software (3)	9,282,952,527	5,295,527,348	5,174,657,361
Other intangible assets (3)	8,398,795	4,874,124	3,872,091
	<u>9,291,351,322</u>	<u>5,300,401,472</u>	<u>5,178,529,452</u>
<i><u>Other assets:</u></i>			
Prepaid taxes	17,505,906,503	16,712,469,431	10,231,558,415
Prepaid insurance policy	209,455,200	169,380,002	210,051,998
Other prepaid expenses	3,569,050,189	7,866,604,530	3,726,693,630
Stationery, office supplies and other materials	537,878,840	913,024,907	1,129,894,194
Leased assets	120,459,914	121,506,085	121,858,271
Library and artwork	404,704,948	404,704,948	429,918,818
Construction work in progress	1,994,027,919	1,383,200,612	1,133,098,893
Automated applications under development	154,567,859	88,151,366	-
Payments to welfare and trade associations	350,000	600,000	600,000
Other sundry assets	158,557,669	158,557,669	452,261,554
Operations pending settlement	9,468,029,279	21,965,902,330	5,246,356,908
Other operations pending application	104,547,422	118,059,154	240,801,132
Security deposits (Note 7)	533,217,403	460,789,956	525,411,159
Legal and administrative deposits (Note 7)	183,360,251	240,349,485	284,447,168
	<u>34,944,113,396</u>	<u>50,603,300,475</u>	<u>23,732,952,140</u>
¢	<u>76,611,166,922</u>	<u>99,224,929,910</u>	<u>75,974,172,353</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) As of September 30, 2021, the amortization expense for leasehold improvements amounts to ¢88,379,468.
- (2) The costs of issue of financial instruments are as follows:

		September 2021			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	314,855,000	314,855,000	535,253,500	1,164,963,500
Commission - Moody's Investors Service		157,427,500	157,427,500	-	314,855,000
Commission - Société de la Bourse de Luxembourg S.A.		7,695,686	7,695,686	-	15,391,372
RR Donnelley		6,893,435	6,893,410	4,126,663	17,913,508
BNY Mellon		2,489,244	2,489,244	3,631,538	8,610,025
Moody's issuer rating		20,843,401	20,843,401	157,427,500	199,114,302
Fitch Ratings		157,427,500	157,427,500	157,427,500	472,282,500
Milbank		92,668,124	92,668,124	124,065,848	309,402,096
Shearman & Sterling		92,788,398	92,788,398	138,028,717	323,605,513
External audit		119,644,900	119,644,900	146,092,720	385,382,520
Perkins Cole (Broker)		-	-	8,259,938	8,259,938
Printing of documents		-	-	9,958,853	9,958,853
		<u>972,733,188</u>	<u>972,733,163</u>	<u>1,284,272,776</u>	<u>3,229,739,126</u>
Amortization		<u>(972,733,188)</u>	<u>(715,889,592)</u>	<u>(1,284,272,765)</u>	<u>(2,972,895,544)</u>
	¢	<u>-</u>	<u>256,843,571</u>	<u>11</u>	<u>256,843,582</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2020				
	5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
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) Intangible assets, net, are as follows:

		September 2021		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	34,140,956,406	46,969,683	34,187,926,089
Additions		7,258,209,874	29,723,089	7,287,932,963
Disposals		1,718,589,281)	-	(1,718,589,281)
Reclassifications		-	(26,198,418)	(26,198,418)
Adjustments		(116,483,281)	-	(116,483,281)
Closing balance		<u>39,564,093,718</u>	<u>50,494,354</u>	<u>39,614,588,072</u>
<u>Accumulated amortization:</u>				
Opening balance		28,845,429,058	42,095,559	28,887,524,617
Expense for the period		3,114,397,224	26,198,418	3,140,595,642
Disposals		(1,628,049,576)	-	(1,628,049,576)
Reclassifications		(49,952,167)	(26,198,418)	(76,150,585)
Adjustments		(683,348)	-	(683,348)
Closing balance		<u>30,281,141,191</u>	<u>42,095,559</u>	<u>30,323,236,750</u>
Net closing balance	¢	<u>9,282,952,527</u>	<u>8,398,795</u>	<u>9,291,351,322</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	32,758,659,684	44,965,618	32,803,625,302
Additions		2,518,506,297	16,490,398	2,534,996,695
Disposals		(1,008,133,238)	-	(1,008,133,238)
Reclassifications		(1,659,291)	(14,486,333)	(16,145,624)
Adjustments		(126,417,047)	-	(126,417,047)
Closing balance		<u>34,140,956,405</u>	<u>46,969,683</u>	<u>34,187,926,088</u>
<u>Accumulated amortization:</u>				
Opening balance		25,835,625,309	42,095,559	25,877,720,868
Expense for the year		4,093,766,764	-	4,093,766,764
Disposals		(1,021,627,707)	-	(1,021,627,707)
Reclassifications		1,889,740	-	1,889,740
Adjustments		(64,225,048)	-	(64,225,048)
Closing balance		<u>28,845,429,057</u>	<u>42,095,559</u>	<u>28,887,524,616</u>
Net closing balance	¢	<u>5,295,527,348</u>	<u>4,874,124</u>	<u>5,300,401,472</u>
		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>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with the public

Obligations with the public by cumulative amount are as follows:

	September 2021	December 2020	September 2020
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 1,956,396,678,830	1,722,635,196,234	1,825,069,121,766
Certified checks	94,912,314	158,566,763	92,050,927
Savings deposits	1,849,586,607,285	1,793,268,825,369	1,619,729,533,663
Matured term deposits	18,982,568,755	21,038,851,425	27,185,834,873
Other demand deposits	123,317,943	126,026,584	134,295,416
Drafts and transfers payable	168,503,999	402,866,378	547,577,109
Cashier's checks	3,650,468,686	2,853,421,177	3,086,790,851
Advance collections from customers for credit cards	11,004,371,669	11,366,072,439	10,961,287,744
Banking mandates	-	1,142,835,067	1,133,876,618
Trust fund obligations	23,762,579	70,824,810	93,418,494
	<u>3,840,031,192,060</u>	<u>3,553,063,486,246</u>	<u>3,488,033,787,461</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	1,864,259,058,363	1,938,769,672,856	1,918,587,143,191
Other term deposits	43,752,016,742	97,766,851,400	129,362,862,541
	<u>1,908,011,075,105</u>	<u>2,036,536,524,256</u>	<u>2,047,950,005,732</u>
<i><u>Other obligations with the public:</u></i>			
Obligations for tri-party repurchase agreements	-	7,873,700,508	14,219,737,164
Finance charges payable	28,348,855,971	36,616,428,702	37,953,674,649
	<u>¢ 5,776,391,123,136</u>	<u>5,634,090,139,712</u>	<u>5,588,157,205,006</u>

Deposits in checking accounts in colones bear interest at a maximum rate of 1.15% per annum on full balances (December and September 2020: 1.15% and 1.80% per annum, respectively) and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001 (December and September 2020: 0.65% and 0.00% per annum, respectively). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances (December and September 2020: 0.20% and 0.45% per annum, respectively) and at a minimum rate of 0.00% per annum on balances greater than or equal to US\$5,000.99 (December and September 2020: 0.10% and 0.40% per annum, respectively).

Term deposits correspond to term certificates of deposit in colones, US dollars, and euro. As of September 30, 2021, term certificates bear annual interest at the following rates:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Currency	September 2021	December 2020	September 2020
Colones	0.77% to 5.95%	1.25% to 6.75%	1.25% to 6.75%
US dollars	0.10% to 3.80%	0.20% to 3.90%	0.20% to 3.90%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2021, the balance of those term certificates of deposit is ¢83,983,727,268 (December and September 2020: ¢80,013,679,833 and ¢80,863,712,167, respectively). As of that date, the Conglomerate has no inactive deposits with State-owned entities or other banks.

(19) Obligations with BCCR

Obligations with BCCR are as follows:

	September 2021	December 2020	September 2020
Financing of loans using internal funds	¢ 168,293,000,000	-	-
Financing of loans using external funds	125,644,412	125,644,412	125,644,412
Other term obligations (i)	-	8,000,000,000	-
Finance charges payable	615,995,133	666,667	-
	<u>¢ 169,034,639,545</u>	<u>8,126,311,079</u>	<u>125,644,412</u>

- i. According to Agreement MAG/AID 515-T-027 signed December 15, 1981, obligations related to financing of loans using external funds correspond to the agreement between the Government of Costa Rica and the Conglomerate regarding management of the funds of the Agricultural Production Systems Project. This loan bears no interest and the agreement shall remain effective until otherwise agreed.
- ii. Other term obligations with BCCR correspond to deferred liquidity operations (MIL operations), with the corresponding interest.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

Obligations with financial entities are as follows:

	September 2021	December 2020	September 2020
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 65,932,881,955	63,081,831,168	79,725,915,957
Savings deposits with local financial entities	59,119,955	52,978,622	35,089,424
Outstanding checks	4,105,509,910	1,319,135,518	2,180,609,703
Matured term deposits	44,849,999	4,150,001	2,653,590
Checking accounts and obligations with related parties	17,107,829	817,312,947	1,253,183,952
	<u>70,159,469,648</u>	<u>65,275,408,256</u>	<u>83,197,452,626</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	86,121,576,741	81,249,784,724	78,202,763,270
Term obligations with foreign financial entities (1)	210,402,473,945	400,679,619,801	394,888,900,216
Obligations for funds from the liquidity market	14,979,709,999	19,484,690,997	25,073,480,000
Loans from local financial entities (3)	-	30,060,611,046	30,701,720,820
Loans from foreign financial entities (2)	129,096,637,199	114,374,846,095	136,839,222,056
Lease liabilities (1)	35,071,592,750	37,044,902,529	39,771,159,796
Obligations with funds from the Development Credit Fund	169,930,550,294	167,991,227,096	170,381,740,130
Notes payable - financing BNCR	35,149,399,507	-	-
Obligations with related financial entities	-	-	600,000,000
	<u>680,751,940,435</u>	<u>850,885,682,288</u>	<u>876,458,986,288</u>
(Deferred fees and commissions on own loan portfolio)	<u>(55,768,264)</u>	<u>(49,567,474)</u>	<u>(39,984,750)</u>
	<u>(55,768,264)</u>	<u>(49,567,474)</u>	<u>(39,984,750)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	27,035,409	23,373,089	44,326,122
Charges payable for other demand and term obligations with financial entities – local currency	421,715,294	393,526,931	411,474,229
Charges payable for loans with foreign financial entities (1)(4)	2,138,647,171	534,786,904	1,946,610,254
Charges payable for loans with local financial entities (3)	44,166,823	63,322,482	64,514,353
Charges payable for term deposits with foreign financial entities (1)(2)	5,249,567,617	4,120,913,505	9,848,636,509
	<u>7,881,132,314</u>	<u>5,135,922,911</u>	<u>12,315,561,467</u>
¢	<u><u>758,736,774,133</u></u>	<u><u>921,247,445,981</u></u>	<u><u>971,932,015,631</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) *Lease liabilities*

Long-term lease liabilities and their current portion amount to ¢6,012,213,503 and US\$46,303,847, for a total in colones of ¢34,526,585,610.28, using an exchange rate of ¢615.81 (December 2020: ¢6,852,361,433 and US\$48,071,709, for a total in colones of ¢37,044,903,048, using an exchange rate of ¢617.30; and September 2020: ¢6,326,519,401 and US\$53,570,849, for a total in colones of ¢38,756,935,502, using an exchange rate of ¢606.68).

Lease liabilities include 74 lease operations, of which 16 operations are denominated in colones, bearing interest at rates ranging between 11.80% and 13.63% per annum and maturing between 2022 and 2041 (December 2020: 79 lease operations, of which 15 are denominated in colones, bearing interest at rates ranging between 11.80% and 13.63% per annum; and September 2020: 79 lease operations, of which 16 are denominated in colones, bearing interest at rates ranging between 11.80% and 13.63% per annum). The remaining 58 lease operations are denominated in US dollars, bearing interest at rates ranging between 8.80% and 8.85% per annum and maturing between 2021 and 2041 (December 2020: 60 lease operations denominated in US dollars, bearing interest at rates ranging between 8.80% and 8.85% per annum; and September 2020: 63 lease operations denominated in US dollars, bearing interest at rates ranging between 8.80% and 8.85% per annum).

Future minimum lease payments are as follows:

		September 2021		
		<u>Future minimum</u>	<u>Interest</u>	<u>Present value of</u>
		<u>lease payments</u>		<u>minimum lease</u>
				<u>payments</u>
Less than one year	¢	5,309,043,788	3,293,584,826	2,015,463,192
Between one and five years		24,413,490,612	13,329,593,799	11,083,917,987
More than five years		31,698,902,666	9,743,981,389	21,954,956,987
	¢	<u>61,421,437,066</u>	<u>26,367,160,013</u>	<u>35,054,338,166</u>
		December 2020		
		<u>Future minimum</u>	<u>Interest</u>	<u>Present value of</u>
		<u>lease payments</u>		<u>minimum lease</u>
				<u>payments</u>
Less than one year	¢	5,295,814,630	3,285,966,632	2,009,847,998
Between one and five years		24,553,927,714	14,344,327,806	10,209,599,908
More than five years		36,156,589,332	11,849,009,827	24,307,579,504
	¢	<u>66,006,331,676</u>	<u>29,479,304,265</u>	<u>36,527,027,410</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Balance at beginning of period	¢	38,483,041,275	38,483,041,275	38,483,041,275
New financial obligations		549,922,691	9,960,187	11,305,430
Settlements or withdrawals		(2,947,517,894)	(2,947,517,894)	-
Adjustments		660,828,920	660,828,920	-
Payment of obligations		(1,906,660,817)	(1,811,972,981)	(1,354,437,518)
Interest expense		3,653,855,435	-	2,753,391,917
Interest paid		-		
Foreign exchange differences		2,132,687,904	2,132,687,903	1,626,026,315
Related to liabilities		<u>5,786,543,339</u>	<u>-</u>	<u>-</u>
Balance at end of period	¢	<u><u>36,972,302,077</u></u>	<u><u>36,527,027,410</u></u>	<u><u>38,765,935,502</u></u>

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

<u>Date of issue</u>	<u>Face value</u>	<u>Characteristics</u>
		<ul style="list-style-type: none"> • Traded amount: 99.072% • Term: 10 years • Interest rate: 6.250% per coupon payment
11/01/2013	US\$500 million	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Date of issue	Face value	Characteristics
10/19/2007	US\$20 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 16 years • Interest rate: 6.20% per coupon payment
09/04/2007	US\$20 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 16 years • Interest rate: 6.20% per coupon payment
05/07/2007	US\$10 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 17 years • Interest rate: 6.20% per coupon payment
03/12/2007	US\$75 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 22 years • Interest rate: 6.65% per coupon payment
04/17/2020	US\$50 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 2 years • Interest rate: 6.65% per coupon payment
11/25/2020	US\$10 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% per coupon payment
01/05/2021	US\$40 million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 3 years • Interest rate: 2.85% per coupon payment
04/27/2016	US\$20.43% million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 8 years • Interest rate: 3.32% per coupon payment
07/21/2016	US\$ 8.11 % million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 7 years • Interest rate: 3.32% per coupon payment
01/30/2015	US\$ 11.47 % million	<ul style="list-style-type: none"> • Traded amount: 100% • Term: 9 years • Interest rate: 3.32% per coupon payment

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Obligations with international issuers:

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

September 2021			
Issue	¢	10-year issue (maturing in 2023)	Total
Issue	¢	199,712,701,005	199,712,701,005
Adjustment to fair value of hedged item measured at cost of international issues		9,325,004,491	9,325,004,491
Amortization of discount in traded amount of issues		1,364,768,594	1,364,768,595
		210,402,474,090	210,402,474,091
Finance charges payable		5,249,567,340	5,249,567,340
	¢	215,652,041,430	215,652,041,431

December 2020			
Issue	¢	10-year issue (maturing in 2023)	5-year issue (maturing in 2021) Total
Issue	¢	195,776,866,066	190,873,703,328
Adjustment to fair value of hedged item measured at cost of international issues		12,722,231,276	(413,491,874)
Amortization of discount in traded amount of issues		1,171,077,027	549,233,978
		209,670,174,369	191,009,445,432
Finance charges payable		2,058,444,759	2,062,468,746
	¢	211,728,619,128	193,071,914,178

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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

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

	September 2021		
	Local	Foreign	Total
Less than one year	¢ -	19,382,068,444	19,382,068,444
One to two years	-	30,505,855,493	30,505,855,493
Three to five years	-	42,388,302,871	42,388,302,871
More than five years	30,891,879,585	46,509,605,500	77,401,485,085
	¢ 30,891,879,585	138,785,832,309	169,677,711,894

	December 2020		
	Local	Foreign	Total
Less than one year	¢ 63,322,482	21,690,172,319	21,753,494,801
Three to five years	-	46,297,500,000	46,297,500,000
More than five years	30,060,611,046	46,921,960,680	76,982,571,726
	¢ 30,123,933,528	114,909,632,999	145,033,566,527

	September 2020		
	Local	Foreign	Total
Less than one year	¢ -	19,382,068,444	19,382,068,444
One to two years	-	30,505,855,493	30,505,855,493
Three to five years	-	42,388,302,871	42,388,302,871
More than five 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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	September 2021	December 2020
Balance at beginning of period	¢ 144,435,457,141	135,780,260,555
New financial obligations	32,192,000,000	38,326,617,261
Settlement of financial obligations	(50,058,002,256)	(39,250,574,578)
Foreign exchange differences	2,527,182,314	9,579,153,903
Cash flows from financing activities	(15,338,819,942)	8,655,196,586
Balance at end of period	¢ 129,096,637,199	144,435,457,141

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Income tax

Pursuant to the Costa Rican *Income Tax Law*, the Conglomerate is required to file income tax returns each year. As of September 30, 2021, income tax is as follows:

a) Income tax for the period

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
<u>Current tax:</u>				
Current tax expense for the period	¢ 14,733,229,565	12,904,390,947	4,976,407,374	4,410,954,648
Prior-period income tax expense	<u>10,641,928,449</u>	<u>10,695,457,037</u>	<u>3,547,309,483</u>	<u>3,547,309,479</u>
	25,375,158,014	23,599,847,984	8,523,716,857	7,958,264,127
<u>Deferred tax:</u>				
Deferred tax expense	926,455,118	593,276,918	87,490,774	27,539,679
Deferred tax income	<u>(1,162,612,311)</u>	<u>(1,367,060,175)</u>	<u>(244,632,198)</u>	<u>(507,046,937)</u>
Total deferred tax expense, net	<u>(236,157,193)</u>	<u>(773,783,257)</u>	<u>(157,141,424)</u>	<u>(479,507,258)</u>
Income tax expense, net	¢ <u>25,139,000,821</u>	<u>22,826,064,727</u>	<u>8,366,575,433</u>	<u>7,478,756,869</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of 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:

	2021	2020
Profit before tax	¢ 51,196,492,806	42,641,492,717
<i>Plus (less) tax effect of:</i>		
Non-deductible expenses	21,845,189,772	10,071,555,963
Deductible expenses	(10,562,907,387)	(2,679,328,435)
Non-taxable income	(13,366,352,822)	(7,019,083,778)
Tax base	49,112,422,369	43,014,636,467
Tax rate	30%	30%
Income tax expense	14,733,229,565	12,904,390,947
Prior-period income tax expense	10,641,928,449	10,695,457,037
Deferred tax expense	926,455,118	593,276,918
Deferred tax income	(1,162,612,311)	(1,367,060,175)
Deferred tax expense, net	(236,157,193)	(773,783,257)
Net income tax expense	¢ 25,139,000,821	22,826,064,727

b) Deferred tax

Deferred tax assets and liabilities are as follows:

	September 2021		
	Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢ 898,845,238	-	898,845,238
Provisions	363,493,704	-	363,493,704
Right-of-use assets	1,333,129,316	-	1,333,129,316
Unrealized gains on valuation of investments	-	(5,399,727,645)	(5,399,727,645)
Revaluation of property	-	(8,889,772,108)	(8,889,772,108)
Tax base of property and equipment	-	(3,947,545,280)	(3,947,545,280)
	¢ 2,595,468,258	(18,237,045,033)	(15,641,576,775)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	446,733,973	-	446,733,973
Provisions		287,529,817	-	287,529,817
Right-of-use assets		951,800,756	-	951,800,756
Unrealized gains on valuation of investments		-	(3,006,120,072)	(3,006,120,072)
Revaluation of property		-	(17,530,316,973)	(17,530,316,973)
Tax base of property and equipment		-	(3,739,156,241)	(3,739,156,241)
	¢	<u>1,686,064,546</u>	<u>(24,275,593,286)</u>	<u>(22,589,528,740)</u>
		September 2020		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	310,287,599	-	310,287,599
Provisions		272,964,939	-	272,964,939
Unrealized gains on valuation of investments		771,039,721	-	771,039,721
Revaluation of property		-	(3,850,042,510)	(3,850,042,510)
Unrealized losses on valuation of investments		-	(9,091,489,508)	(9,091,489,508)
	¢	<u>1,354,292,259</u>	<u>(12,941,532,018)</u>	<u>(11,587,239,759)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are as follows:

		September 2021			
		December 2020	Included in the income statement	Included in equity	September 2021
Unrealized losses on valuation of investments	¢	446,733,973	(84,763,319)	536,874,584	898,845,238
Provisions		287,529,817	75,963,887	-	363,493,704
Right-of-use assets		951,800,756	-	381,328,560	1,333,129,316
Unrealized gains		(3,006,120,072)	76,824,627	(2,470,432,200)	(5,399,727,645)
Asset revaluation		(17,530,316,973)	-	8,640,544,865	(8,889,772,108)
Tax base of property, furniture and equipment		(3,739,156,241)	(345,275,292)	136,886,253	(3,947,545,280)
	¢	<u>(22,589,528,740)</u>	<u>(277,250,097)</u>	<u>7,225,202,062</u>	<u>(15,641,576,775)</u>
		December 2020			
		December 2019	Included in the income statement	Included in equity	December 2020
Unrealized losses on valuation of investments	¢	1,049,189,321	-	(530,233,034)	518,956,287
Provisions		198,437,376	1,710,738	-	200,148,114
Right-of-use assets		-	971,338,597	(18,206,160)	953,132,437
Impairment of investments		-	12,686,297	-	12,686,297
Asset depreciation		-	346,133	-	346,133
Lease liabilities		-	(1,221,832)	-	(1,221,832)
Unrealized gains on valuation of investments		(4,547,196,438)	-	1,642,602,757	(2,904,593,681)
Revaluation of property		(9,506,392,781)	-	470,273,651	(9,036,119,130)
Tax base of property, furniture and equipment		-	(358,422,205)	(3,469,008,302)	(3,827,430,507)
	¢	<u>(12,805,962,522)</u>	<u>626,437,728</u>	<u>(1,904,571,088)</u>	<u>(14,084,095,882)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2020			
		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 assets		-	-	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 property		(9.506.392.781)	-	414.903.273	(9.091.489.508)
	¢	(12.805.962.522)	158.962.699	1.059.760.064	(11.587.239.759)

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

As of September 30, 2021, the Bank has not recognized a deferred tax liability in the amount of ¢4,576,273,002 (December and September 2020: ¢4,651,425,169 and ¢5,969,925,169, respectively), given that it controls the moment when the subsidiaries pay dividends.

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

(22) Provisions

Provisions are as follows:

	September 2021	December 2020	September 2020
Severance benefits	¢ 330,708,145	314,133,990	337,934,402
Litigation	7,799,377,900	6,952,427,372	6,832,006,720
Inactive checking and savings accounts liquidated	763,349,531	759,171,321	750,213,715
Manager commissions	6,548,600,398	15,931,625,072	15,589,565,546
Variation in RIVM methodology	490,003,103	490,003,103	490,003,103
Notice of deficiency	4,714,347,682	3,736,545,365	3,247,644,207
Other	536,238,669	457,979,172	420,392,201
	¢ <u>21,182,625,428</u>	<u>28,641,885,395</u>	<u>27,667,759,894</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

September 2021				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2020	¢ 314,133,990	6,952,427,372	21,375,324,034	28,641,885,396
Increase in provision	89,664,529	1,114,763,532	3,885,616,073	5,090,044,134
Used	16,673,415	(258,727,688)	(12,169,176,968)	(12,411,231,241)
Decrease in provision	(89,763,789)	(9,085,316)	(39,223,756)	(138,072,861)
Balance as of September 30, 2021	¢ 330,708,145	7,799,377,900	13,052,539,383	21,182,625,428
December 2020				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2019	¢ 490,062,436	7,728,962,160	23,746,890,492	31,965,915,088
Increase in provision	91,966,068	787,932,165	6,522,769,241	7,402,667,474
Used	(10,100,884)	(303,159,638)	(3,188,691,827)	(3,501,952,349)
Decrease in provision	(257,793,630)	(1,261,307,315)	(5,705,643,873)	(7,224,744,818)
Balance as of December 31, 2020	¢ 314,133,990	6,952,427,372	21,375,324,033	28,641,885,395
September 2020				
	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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Type	Claimed amount			Provision		
	September 2021	December 2020	September 2020	September 2021	December 2020	September 2020
Ordinary - in colones	18,678,548,922	18,699,964,447	18,820,060,685	4,498,187,797	4,196,881,474	4,137,377,312
Ordinary - in US dollars	137,178,872,865	132,624,641,534	130,328,782,799	2,681,314,641	2,188,079,724	2,125,876,492
Criminal - in colones	1,020,877,223	1,020,877,223	1,020,877,223	-	-	-
Labor - in colones	879,064,572	879,064,573	879,064,573	619,875,463	567,466,174	568,752,916
	<u>157,757,363,582</u>	<u>153,224,547,777</u>	<u>151,048,785,280</u>	<u>7,799,377,901</u>	<u>6,952,427,372</u>	<u>6,832,006,720</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Other sundry accounts payable

Other sundry accounts payable are as follows:

	September 2021	December 2020	September 2020
Professional fees	¢ 5,790,125	1,514,875	1,246,702
Creditors - goods and services	4,856,911,085	7,348,831,124	5,608,720,547
Income tax	14,733,229,567	17,056,944,248	12,904,390,947
Value added tax	234,741,321	271,040,616	219,759,679
Employer contributions	8,194,630,200	7,611,217,677	6,726,181,892
Court-ordered withholdings	3,910,298,658	3,642,750,117	3,714,919,271
Tax withholdings	1,828,334,306	2,145,519,550	2,089,569,042
Employee withholdings	763,897,226	736,355,713	697,637,019
Other third-party withholdings	351,036,542	187,242,872	334,276,468
Compensation	11,418,084,347	10,053,389,163	8,003,427,899
Statutory allocations	14,452,875,745	12,320,255,503	9,079,258,541
Obligations on loans with related parties	1,156,586	200,171	171,342
Clearing house operations	317,874,618	207,654,419	226,035,252
Accrued vacation	5,203,757,884	4,463,928,317	5,195,584,726
Accrued statutory Christmas bonus	7,031,394,655	1,343,813,548	6,379,844,826
Contribution to the superintendencies' budget	6,111,241	6,111,241	4,997,897
Foreclosed assets	126,481,661	198,833,316	627,854,890
Provisional deposits for the payment of premiums	2,782,006,888	2,063,670,964	2,816,446,047
Property	1,305,574,061	-	-
Direct contracts with the Government Purchases department - various	-	974,210,561	1,014,394,217
Accounts due to customers (1)	-	13,575,039	12,232,557
Merlink guarantees	1,572,814,810	1,422,035,747	1,356,195,215
Fees due to international organizations	1,351,500,000	-	1,031,625,000
Amounts received for partial sales of foreclosed assets	-	635,281,514	526,620,517
Master Card and Visa payments	1,390,897,762	-	1,188,597,058
Allocation for petty cash differences	-	583,322,866	-
Various creditors	4,572,106,265	2,974,402,146	1,933,264,802
Interest rate futures - Hedges (Note 9)	2,828,840	-	10,166,665
	¢ 86,414,334,393	76,262,101,307	71,703,419,018

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

Other liabilities are as follows:

	<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
<i><u>Deferred income:</u></i>			
Deferred fees and commissions for trust management	67,448,131	72,347,267	44,978,655
	<u>67,448,131</u>	<u>72,347,267</u>	<u>44,978,655</u>
<i><u>Operations pending application:</u></i>			
Operations pending settlement	3,519,167,932	25,188,593,904	3,551,686,572
Other operations pending settlement	26,389,306,773	11,791,173,966	17,838,444,398
	<u>29,908,474,705</u>	<u>36,979,767,871</u>	<u>21,390,130,970</u>
¢	<u>29,975,922,836</u>	<u>37,052,115,137</u>	<u>21,435,109,625</u>

(25) Subordinated obligations

The Conglomerate's subordinated obligations are as follows:

<u>Annual interest rate</u>	<u>Term</u>	<u>Maturity</u>		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10	05/27/2024	US\$	50,000,000	70,000,000	70,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	10/23/2029		24,750,000	27,000,000	27,750,000
			US\$	<u>74,750,000</u>	<u>97,000,000</u>	<u>97,750,000</u>
Total equivalent in colones			¢	47,070,822,500	59,878,100,000	59,302,970,000
Finance charges payable				386,382,027	1,071,913,196	482,656,923
			¢	<u>47,457,204,527</u>	<u>60,950,013,196</u>	<u>59,785,626,923</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(26) Equity

(a) Share capital

The Conglomerate's share capital is as follows:

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

(b) Capital reserves

Capital reserves are as follows:

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Legal reserve	¢	343,172,682,759	359,235,472,801	359,234,692,230
Statutory reserve for foreclosed assets		3,136,477,786	1,730,214,922	1,452,386,315
Excess of statutory reserve for loans		7,230,030,900	8,231,223,420	6,431,669,480
Statutory dynamic provision		<u>11,605,530,647</u>	<u>12,165,679,183</u>	<u>11,121,853,863</u>
	¢	<u>365,144,722,092</u>	<u>381,362,590,326</u>	<u>378,240,601,888</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Equity of the Development Financing Fund

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

(27) Commitments and contingencies

As of December 31, the Conglomerate has off-balance sheet commitments and contingencies that arise in the ordinary course of business and involve elements of credit and liquidity risk, and the notional amounts of foreign exchange derivatives, as follows:

	September 2021	December 2020	September 2020
Performance bonds	¢ 45,966,717,457	43,130,640,271	39,846,651,798
Bid bonds	2,529,443,662	3,226,116,392	4,381,721,267
Other guarantees	434,641,140	698,212,573	682,376,780
Letters of credit	4,208,178,042	2,514,802,830	2,528,598,430
Credits pending disbursement	134,235,863	130,054,473	129,763,782
	<u>53,273,216,164</u>	<u>49,699,826,539</u>	<u>47,569,112,057</u>
Pre-approved lines of credit	289,208,949,460	276,948,161,866	275,243,899,210
Other contingencies not related to credits	83,658,102	83,658,102	92,897,700
Other contingencies - Pending litigation and lawsuits (Note 47)	<u>157,754,015,781</u>	<u>153,220,867,807</u>	<u>150,984,161,844</u>
	<u>447,046,623,343</u>	<u>430,252,687,775</u>	<u>426,320,958,754</u>
Sales of FX futures - Other than hedges (Note 11)	289,666,600	1,419,790,000	-
¢	<u>500,609,506,107</u>	<u>481,372,304,314</u>	<u>473,890,070,811</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(28) Trust assets

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

The types of trusts managed are as follows:

- Management and investment trusts
- Management trusts with a testamentary clause
- Guaranty trusts
- Housing trusts
- Management and investment public trusts

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2021, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 139,906,590	9,714,761	12,818,269	-	61,821	-	-	1,259,958	-	19,540,348,608	5,593	19,704,115,600
Investments in financial instruments	252,484,024,827	7,309,949,673	1,259,071,371	2,129,816,442,423	3,990,370,472	-	2,511,054	101,985,275	-	503,095,848	640,818	2,395,468,091,761
Loan portfolio	3,442,460,925	-	1,271,775,490	-	-	-	-	-	-	-	-	4,714,236,415
Accounts and accrued interest receivable	121,391,976,683	28,997,997,305	1,936,945,715	65,487,619	36,693	-	-	167,174,077	-	-	235,444	152,559,853,536
Foreclosed assets	138,458,640	-	7,678,148	-	-	-	-	-	-	-	-	146,136,788
Investments in other companies	-	-	-	4,595,000,000	24,304,971	164,000	-	-	25,206,000	575,267,748	4,740,000	5,224,682,719
Property and equipment	778,173,377	27,216,019,345	-	118,672,542,185	662,837,677	-	-	8,719,375,327	-	-	3,004,248,009	159,053,195,920
Other assets	19,101,217,411	2,487,164,802	1,262	235,000,000	6,749,786	-	-	799,362	-	2,986,235,610	1,674,505,319	26,491,673,552
¢	397,476,218,453	66,020,845,886	4,488,290,255	2,253,384,472,227	4,684,361,420	164,000	2,511,054	8,990,593,999	25,206,000	23,604,947,814	4,684,375,183	2,763,361,986,291

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Total
<i>Trust assets</i>												
Cash and due from banks	¢ 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
Investments 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 Conglomerate are as follows:

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	September 2021	December 2020	September 2020
Pension Fund Manager's own investments in custody – Face value of principal (unaudited) ¢	11,232,347,600	9,429,338,000	9,667,480,800
Pension Fund Manager's own investments in custody – Coupons (unaudited)	4,966,478,932	4,075,938,978	4,304,126,941
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23	23	23
Guarantees received in the Bank's custody	743,054,745	189,575,678	188,088,897
Guarantees on financial instruments	-	70,693,196	-
Other guarantees received in the Bank's custody	7,070,426,701,608	6,552,472,403,964	5,606,595,428,561
Lines of credit granted but unused	400,893,590,297	406,505,614,639	387,839,260,873
Loans pending disbursement	144,146,812,855	172,571,373,581	166,807,520,998
Unused overdrafts	57,994,676	-	-
Investments settled	-	111,415,987	147,296,559
Loans settled	395,175,750,391	338,806,069,999	333,755,235,996
Other accounts receivable settled	19,299,125,772	14,954,527,504	14,904,032,822
Accrued interest receivable settled	36,122,072,769	30,839,072,824	30,501,980,861
Interest income on non-accrual loans of loan portfolio	26,947,682,794	30,647,147,213	28,947,758,705
Supporting documentation received in the Bank's custody	9,003,761	2,384	1,552
Securities issued pending placement	6,248,000,000	6,248,000,000	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,297,100,000	6,173,000,001	6,066,800,002
Notified letters of credit	5,082,149,987	4,025,233,726	4,795,962,933
Notional value subject to interest rate futures (Note 9)	208,132,378,910	396,628,213,300	390,047,312,280
Reversals made to income accounts for the period	35,770,083,813	30,789,263,983	30,789,263,983
Reversals made to expense accounts for the period	59,001,309,316	52,976,645,521	52,976,645,521
Non-deductible expenses	12,389,918,809	12,389,918,809	76,710,515,077
Non-taxable income	13,624,603,217	13,624,603,217	87,270,366,858
Other memoranda accounts	215,634,502,774	233,695,482,469	213,073,653,197
	<u>8,672,200,663,049</u>	<u>8,317,223,534,996</u>	<u>7,451,636,733,439</u>
Third-party debit memoranda accounts (1)	4,745,402,776,819	4,073,331,070,341	3,914,501,931,374
Own debit memoranda accounts for custodial activities	683,956,706,733	654,639,927,606	749,762,463,027
Third-party debit memoranda accounts for custodial activities	16,123,723,265,633	13,623,002,247,628	12,949,604,375,927
	<u>21,553,082,749,185</u>	<u>18,350,973,245,575</u>	<u>17,613,868,770,328</u>
¢	<u>30,225,283,412,234</u>	<u>26,668,196,780,571</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) Third-party debit memoranda accounts are as follows:

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Management of banking mandates	¢	1,674,340,241,658	1,520,637,448,493	1,435,857,018,720
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531		625,125,379	586,174,589	574,437,246
Pension funds (Note 27)		2,214,700,900,852	1,855,825,633,619	1,803,040,280,662
Investment funds (Note 26)		762,266,098,249	599,338,640,487	579,123,912,616
Portfolio management		93,470,410,681	96,690,264,876	95,906,282,130
	¢	<u>4,745,402,776,819</u>	<u>4,073,078,162,064</u>	<u>3,914,501,931,374</u>

Other memoranda accounts by entity are as follows:

		<u>September 2021</u>	<u>December 2020</u>	<u>September 2020</u>
Banco Nacional de Costa Rica	¢	26,044,877,985,466	22,998,578,779,433	21,429,892,596,093
BN Valores Puesto de Bolsa, S.A. (Note 30)		1,186,429,394,725	1,199,940,596,159	1,238,713,155,052
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)		762,311,943,598	599,380,399,441	579,173,702,782
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)		2,231,664,088,445	1,870,044,097,261	1,817,726,049,840
	¢	<u>30,225,283,412,234</u>	<u>26,667,943,872,294</u>	<u>25,065,505,503,767</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Memoranda accounts for brokerage operations are summarized below:

	<u>September 2021</u>	<u>September 2020</u>
<i><u>Own</u></i>		
Confirmed cash contracts pending settlement	-	750,898,156
Futures contracts pending settlement	16,381,240,510	39,386,200,512
Own trading securities (Note 30-a)	896,232,002	18,890,009,752
Other own memoranda accounts	6,319,389,188	6,082,786,334
	<u>23,596,861,700</u>	<u>65,109,894,754</u>
<i><u>Third party</u></i>		
Trading securities received as guarantees	34,014,887,827	26,862,439,001
Trading securities pending receipt	2,219,676,832	623,636,766
Signed contracts pending settlement	3,427,023,958	3,259,734,970
Futures contracts pending settlement	81,864,775,310	84,809,947,298
Third-party trading securities (Note 30-a)	945,595,786,915	960,160,728,591
Cash and accounts receivable	2,239,971,502	1,980,491,542
Portfolio management	93,470,410,681	95,906,282,130
	<u>1,162,832,533,025</u>	<u>1,173,603,260,298</u>
Memoranda accounts (Note 29)	¢ <u>1,186,429,394,725</u>	<u>1,238,713,155,052</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

<u>Location</u>	<u>Type of custody</u>	<u>September 2021</u>	<u>September 2020</u>
<i>Own custodial activities</i>			
Local	CEVAL - private	-	16,279,235,319
Local	CEVAL - public	870,420,000	2,595,774,431
Local	Vault	25,812,002	15,000,002
		<u>896,232,002</u>	<u>18,890,009,752</u>
<i>Custodial activities on behalf of third parties</i>			
Local	CEVAL - private	126,121,550,468	165,879,862,649
Foreign	CEVAL - private	48,232,587,851	43,792,794,732
Local	CEVAL - public	735,370,769,051	727,851,789,812
Foreign	International custody	34,971,265,630	22,213,423,733
Local	Vault	8,024,829	8,024,829
Local - foreign	Securities that are doubtful, in arrears or in litigation	891,589,086	414,832,836
		<u>945,595,786,915</u>	<u>960,160,728,591</u>
		¢ <u>946,492,018,917</u>	<u>979,050,738,343</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2021								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,361,011,389	1,000,778	630,199,776	14,991,211,165	1,390,029,344	-	-	1,390,029,344
Third								
parties	7,995,853,490	77,479,992	48,789,925,679	56,785,779,169	6,787,809,364	29,047,001	18,291,186,778	25,078,996,142
	<u>22,356,864,879</u>	<u>78,480,770</u>	<u>49,420,125,455</u>	<u>71,776,990,334</u>	<u>8,177,838,708</u>	<u>29,047,001</u>	<u>18,291,186,778</u>	<u>26,469,025,486</u>
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>

(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 2021				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<i>Own</i>				
1 to 30 days	¢ 14,361,011,389	1,000,779	1,390,029,344	-
	14,361,011,389	1,000,779	1,390,029,344	-
<i>Third-party</i>				
1 to 30 days	193,353,968	6,999,103	-	-
31 to 60 days	2,127,066,061	24,548,237	2,422,366,641	9,252,384
61 to 90 days	4,426,491,525	43,050,365	2,655,494,765	16,912,331
More than 91 days	1,248,941,936	2,882,286	1,709,947,959	2,882,286
	7,995,853,490	77,479,991	6,787,809,365	29,047,001
	¢ 22,356,864,879	78,480,770	8,177,838,709	29,047,001
2020				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<i>Own</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	-	-
	18,424,929,931	34,550,786	-	-
<i>Third-party</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
	11,025,234,574	84,897,838	6,509,057,904	25,993,662
	¢ 29,450,164,505	119,448,624	6,509,057,904	25,993,662

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(31) Investment fund management agreements

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

Fund	September 2021		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
SúperFondo Colones	¢ 166,144,860,076	37,355,836,238	4.45
FonDepósito Colones	67,924,465,593	42,298,456,133	1.61
CreciFondo Colones	15,148,015,498	2,254,886,668	6.72
RediFondo Colones	57,059,651,169	12,142,235,499	4.70
DinerFondo Colones	91,198,082,272	30,641,350,508	2.98
	¢ 397,475,074,608	124,692,765,046	
<i>Funds in US dollars:</i>			
CreciFondo Dólares	US\$ 19,447,607	8,722,263	2.21
RediFondo Dólares	53,949,549	29,653,442	1.81
DinerFondo Dólares	169,004,850	124,041,780	1.36
FonDepósito Dólares	56,265,092	48,944,481	1.15
SúperFondo Dólares Plus	242,403,066	213,658,008	1.13
International liquidity fund	30,828,049	21,750	1,417.38
BN Internacional Valor	110,517	110,855	1.00
BN Internacional Suma	2,726,199	2,712,731	1.00
BN Internacional Crece	1,558,872	1,543,370	1.01
BN Infraestructura Pública -1	3,006,233	3,004,503	1.00
	US\$ 579,300,034	432,413,183	
	¢ 364,791,023,642	272,294,905,467	
Assets of managed funds	¢ 762,266,098,251	396,987,670,513	
<i>Guarantees:</i>			
Performance bonds	43,870,045	-	
Outstanding checks	1,975,304	-	
	45,845,349	-	
Memoranda accounts (Note 29)	¢ 762,311,943,600	-	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	September 2020		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
SúperFondo Colones	¢ 149,510,710,073	34,072,917,008	4.40
FonDepósito Colones	59,629,316,519	37,586,575,952	1.59
CreciFondo Colones	4,560,453,469	736,595,091	6.19
RediFondo Colones	27,224,048,884	6,165,467,316	4.42
DinerFondo 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>			
SúperFondo Dólares	US\$ 16,453,196	10,695,700	1.54
CreciFondo Dólares	7,661,221	3,725,071	2.06
RediFondo Dólares	25,881,611	15,200,960	1.71
DinerFondo Dólares	110,075,054	81,984,367	1.35
FonDepósito Dólares	52,576,927	46,050,472	1.14
SúperFondo Dólares Plus	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)	¢ <u>579,173,702,782</u>	-	

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN FonDepósito Dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments and to manage capital or funds in transit, with a minimum recommended period of 5 days. The funds can be requested at any time and are deposited the next day, complying with the cutoff time and generating no withdrawal commissions. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. Account statements for this fund are sent monthly.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-I*: (real estate development): This fund invests in the development and operation of buildings to be leased by Banco Nacional de Costa Rica for a defined term. As of September 30, 2021, this fund does not have operations
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1*: (real estate development - US dollars): This fund will invest in the construction of buildings to be used by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR.
- *BN Internacional Valor No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of September 30, 2021, this fund does not have operations.
- *BN Internacional Suma No Diversificado (non-diversified - US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, they are willing to assume losses in the short- and medium-term to obtain returns higher than those of the market in the medium- and long-term. It is 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, 2021, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN Internacional Crece No Diversificado (non-diversified - US dollars)*: This is a long-term, international, mixed-portfolio investment fund addressed to investors with an aggressive risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio composed of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of September 30, 2021, this fund does not have operations.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund)*: This is an international investment fund aimed at conservative investors looking for short-term investments. It is a good alternative for meeting present or future liquidity needs. Since it is a long-term fund, it is aimed at investors looking to meet future liquidity needs. As of September 30, 2021, this fund does not have operations.
- *BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund – US dollars)*: This is an international investment fund intended for conservative investors looking for short-term investments. It is a good alternative for meeting present or future liquidity needs. The Bank's international liquidity portfolio comprises debt securities issued by the international public or private sectors and investment funds. The securities in which the fund invests are denominated in US dollars and are registered in the international market. This fund does not require the investor to have ample experience in the securities market, though it requires awareness of potential volatilities, including a decrease in the value of their investment. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. The account statements for this fund are sent monthly.
- *BN Internacional Valor (US dollars)*: This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sectors and investment funds.
- *BN Internacional Suma (US dollars)*: This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN Internacional Crece (US dollars)*: This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds.
- *BN Fondo de Inversión de Desarrollo de Proyectos BN I* (real estate development): This fund invests in the development and operation of several buildings that will be leased for a definite term. It is addressed to both local and foreign investors who wish to participate in a project development investment fund dedicated to the construction of 8 buildings on land owned by the Bank. For the development of this project, the land was assigned to the Fund through the assignment of usufruct rights, for subsequent leasing to the Bank or to third parties and, ultimately, sale of the buildings. Information on the main conditions of the agreement of assignment of usufruct rights and lease agreements, which were signed as of August 2018, is included in the prospectus. Furthermore, information is provided on the situations in which the usufruct rights may be revoked; conditions for use of the assets and limitations on their use, asset restrictions or commitments, administrative contract and appeals regimes applicable to the Fund. As of September 30, 2021 and 2020, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Pension fund management agreements

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

	<u>September 2021</u>	<u>September 2020</u>
Mandatory Pension Fund (ROP)	¢ 1,887,484,728,620	1,537,604,930,520
Mandatory Retirement Savings Account (FCL)	93,417,093,668	119,019,202,758
Voluntary Pension Fund in Colones A (FPC A)	144,224,088,428	95,150,183,278
Voluntary Pension Fund in Colones B (FPC B)	41,252,249,612	24,788,193,378
Voluntary Pension Fund in US dollars A (FPD A) (i)	25,276,679,870	16,384,379,796
Voluntary Pension Fund in US dollars B (FPD B) (ii)	16,645,722,812	10,093,390,932
ICT Employees Retirement Fund	6,400,337,842	-
Assets of managed funds (Note 29)	2,214,700,900,852	1,803,040,280,662
Securities and assets in own custody	16,198,826,555	13,971,607,764
Bid and performance bonds – colones	33,408,778	35,656,222
Bid and performance bonds – US dollars (iii)	105,826,881	104,067,946
Securities in DU	625,125,379	574,437,246
Memoranda accounts (Note 29)	¢ <u>2,231,664,088,445</u>	<u>1,817,726,049,840</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- i. As of September 30, 2021, this fund amounts to US\$40,140,191 and is valued at the exchange rate of ₡629.71 per US\$1.00.
- ii. As of September 30, 2021, this fund amounts to US\$26,433,950 and is valued at the exchange rate of ₡629.71 per US\$1.00.
- iii. As of September 30, 2021, this fund amounts to US\$168,057 and is valued at the exchange rate of ₡629.71 per US\$1.00.

(33) Income from financial instruments

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

		September		Quarter from July 1 to September 30	
		2021	2020	2021	2020
<u>Cash and due from banks:</u>					
Deposits in BCCR	¢	4,996,753	3,394,188	1,191,727	268,494
Checking accounts and demand deposits in local entities		21,739,787	30,084,504	6,081,434	10,935,421
Checking accounts and demand deposits in foreign entities		796,428,350	2,188,437,120	228,900,273	358,150,921
		823,164,890	2,221,915,812	236,173,434	369,354,836
<u>Financial instruments:</u>					
Investments at fair value through profit or loss		169,135,831	1,308,442,238	48,843,517	377,958,839
Investments at fair value through other comprehensive income		27,737,743,840	30,875,376,422	8,485,941,595	9,990,355,623
Investments at amortized cost		17,904,254,547	21,853,777,801	6,109,847,096	6,399,120,098
Investments in past due and restricted securities		545,757,255	429,206,789	205,071,385	195,056,368
		46,356,891,473	54,466,803,250	14,849,703,593	16,962,490,928
	¢	47,180,056,363	56,688,719,062	15,085,877,027	17,331,845,764

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

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

	September		Quarter from	
	2021	2020	July 1 to September 30	
			2021	2020
<u>Current loans:</u>				
Individuals	¢ 115,271,354,905	124,947,456,271	38,510,857,179	39,342,575,910
Development Banking System	3,812,662,271	4,403,972,247	1,250,833,627	1,335,671,603
Business	46,618,918,628	55,631,483,180	15,574,344,651	17,417,895,271
Corporate	53,505,776,636	54,174,016,347	17,800,708,838	17,747,117,021
Public sector	6,817,916,674	8,301,739,517	2,223,193,265	2,629,024,793
Financial sector	3,981,829,456	5,405,678,191	1,234,870,437	1,659,959,789
	<u>230,008,458,570</u>	<u>252,864,345,753</u>	<u>76,594,807,997</u>	<u>80,132,244,387</u>
<u>Past due loans and loans in legal collection:</u>				
Individuals	17,465,786,168	20,147,181,904	5,536,621,671	7,252,998,562
Development Banking System	440,617,176	544,800,949	145,263,302	181,076,235
Business	9,267,891,402	9,671,990,728	2,605,261,412	2,712,911,552
Corporate	1,863,863,055	2,575,980,214	739,238,839	498,822,426
Public sector	89,748,052	165,038,756	18,865,405	43,966,655
Financial sector	6,086,210	2,926,833	-	2,036,217
In legal collection	7,206,107,925	6,968,603,822	2,405,839,946	2,611,874,283
Amortization of net commission of incremental direct costs related to loans	<u>990,887,379</u>	<u>879,054,792</u>	<u>-320,207,275</u>	<u>301,466,955</u>
	<u>37,330,987,367</u>	<u>40,955,577,998</u>	<u>11,771,297,850</u>	<u>13,605,152,885</u>
¢	<u><u>267,339,445,937</u></u>	<u><u>293,819,923,751</u></u>	<u><u>88,366,105,847</u></u>	<u><u>93,737,397,272</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Fees and commissions on letters of credit	¢ 10,265,306	10,523,130	3,782,779	3,564,782
Fees and commissions on guarantees granted	393,949,426	827,295,217	121,450,676	113,575,902
Gain on sale of financial instruments	707,526,145	99,244,152	489,880,902	99,244,152
Gain on fair value hedge for item measured at cost	4,126,232,201	9,817,673,826	1,159,013,503	4,940,868,986
Other sundry finance income	2,121,562,191	2,604,856,695	690,662,012	642,166,076
	¢ <u>7,359,535,269</u>	<u>13,359,593,020</u>	<u>2,464,789,872</u>	<u>5,799,419,898</u>

(36) 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		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Demand deposits	¢ 28,820,866,064	42,164,190,310	9,367,578,120	13,599,052,555
Term deposits	63,375,904,658	90,705,026,757	18,665,329,696	25,460,016,783
Third-party repurchase agreements and securities lending	15,293,926	278,192,403	-	73,971,606
	¢ <u>92,212,064,648</u>	<u>133,147,409,470</u>	<u>28,032,907,816</u>	<u>39,133,040,944</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(37) 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		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Demand obligations	¢ 1,077,593,679	1,598,593,819	357,078,534	489,309,050
Term obligations	25,238,966,053	34,647,476,996	7,037,169,034	11,233,336,389
	¢ 26,316,559,732	36,246,070,815	7,394,247,568	11,722,645,439

(38) Other finance costs

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Fees and commissions on letters of credit obtained	¢ 164,660,889	114,849,549	73,603,121	38,881,477
Loss on hedged item measured at cost from fair value hedge on interest rate risk	943,588,321	18,768,771,412	99,673,066	-
Other sundry finance costs	396,599,006	557,388,994	82,921,153	276,652,205
	¢ 1,504,848,216	19,441,009,955	256,197,340	315,533,682

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(39) 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		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Allowance for loan losses (Note 12)	¢ 66,814,941,186	52,343,728,357	26,343,787,508	17,674,367,417
Allowance for impairment of other accounts receivable (Note 13)	670,623,773	857,321,127	206,966,748	224,232,355
Allowance for stand-by credit losses	-	401,000,000	-	-
General and counter-cyclical allowance for loan portfolio (Note 12)	2,570,000,000	2,579,260,753	650,000,000	530,331,799
General and counter-cyclical allowance for stand-by credit losses (Note 12 and 24)	120,000,001	54,025,566	-	-
Allowance for impairment of investments at fair value through other comprehensive income	3,049,567,521	330,938,943	376,241,682	1,960,201
Allowance for impairment of financial instruments at amortized cost	1,971,931,480	383,017,826	445,552,041	33,985,608
Allowance for impairment of operations with derivative financial instruments (Note 11)	7,090,165	76,600,465	5,020,445	16,959,212
Allowance for impairment of past due and restricted financial instruments	38,477	62,752	-	(28,094)
	¢ <u>75,204,192,603</u>	<u>57,025,955,790</u>	<u>28,027,568,424</u>	<u>18,481,808,498</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	September		Quarter from	
	July 1 to September 30			
	2021	2020	2021	2020
Recovery of loan write-offs	¢ 8,667,708,050	6,187,731,147	4,025,730,684	1,940,283,171
Recovery of accounts receivable write-offs	3,589,526	1,148,045	1,214,332	541,588
Decrease in allowance for impairment of other accounts receivable (Note 13)	426,607,080	521,645,188	103,059,096	66,205,247
Decrease in allowance for impairment of investments in financial instruments (Note 10)	2,308,189,449	450,223,976	448,428,411	67,695,864
	<u>¢ 11,406,094,105</u>	<u>7,160,748,356</u>	<u>4,578,432,523</u>	<u>2,074,725,870</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(41) Income from service fees and commissions

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

		September		Quarter from July 1 to September 30	
		2021	2020	2021	2020
Drafts and transfers	¢	7,298,387,808	6,448,883,791	2,527,232,193	2,266,766,972
Certified checks		2,116,974	1,939,396	639,904	732,318
Trusts		1,396,132,965	1,172,677,939	492,826,895	387,690,315
Custodial services		1,504,884,846	1,327,257,804	492,686,878	418,914,596
Banking mandates		135,487	129,827	43,263	43,396
Collections		16,745,373	11,052,574	6,430,147	3,107,225
Credit cards		39,486,429,732	39,976,701,094	13,784,057,796	12,662,860,305
Management services		3,101,500,086	2,707,606,798	986,277,665	879,631,291
Management of investment funds		5,811,555,338	4,952,099,439	2,027,860,708	1,746,031,439
Management of pension funds		8,822,579,880	6,631,013,703	3,153,798,842	2,329,577,852
Insurance underwriting		5,845,240,594	5,660,071,826	1,935,721,491	1,834,854,545
Brokerage operations (third parties in local market)		3,595,639,736	2,284,278,560	1,260,668,959	815,817,005
Brokerage operations (third parties in other markets)		165,901,042	213,995,717	45,701,478	48,297,281
Transactions with related parties		40,719,802	27,163,151	13,989,734	5,988,117
Commissions charged to other affiliates due to covenants		9,047,062,240	8,382,435,164	2,963,749,816	2,800,712,132
Servibanca local interchange		15,678,002,770	15,778,367,874	5,348,703,950	5,290,749,592
Other service fees and commissions		7,108,629,203	5,354,464,504	2,446,667,713	1,690,466,837
	¢	<u>108,921,663,876</u>	<u>100,930,139,161</u>	<u>37,487,057,431</u>	<u>33,182,241,218</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

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

	September		Quarter from	
	2021	2020	July 1 to September 30	
			2021	2020
Recovery of expenses (1)	¢ 2,322,569,967	2,809,318,689	608,557,428	292,387,500
Net valuation of other assets (Note 6)	61,663,409	1,076,859,863	26,710,705	686,949,048
Other income from accounts receivable	1,058,962	2,955,342	351,224	309,973
Savings accounts liquidation	-	103,958,194	-	-
Administrative charges - VISA	603,294,281	711,516,470	603,294,280	-
Liquidation of term certificate of deposit not claimed	544,112,331	248,334,244	544,112,331	-
Withholdings from vendors	-	119,742,826	-	-
Excess cash from human teller	-	74,891,604	-	-
Sundry operating income	1,463,066,570	1,894,202,136	(357,876,610)	1,330,154,249
Decrease in provisions	138,072,861	7,185,652,847	34,223,904	166,842,883
	¢ <u>5,133,838,381</u>	<u>14,227,432,215</u>	<u>1,459,373,262</u>	<u>2,476,643,653</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Expenses for foreclosed assets

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Property and other assets acquired in lieu of payment	¢ 219,295,167	69,450,945	-	8,559,688
Loss on sale of assets awarded in judicial auctions	5,178,816,402	2,717,794,521	1,369,436,130	749,850,196
Management of assets received in lieu of payment	19,059,613	13,432,554	3,724,190	3,992,786
Management of assets awarded in judicial auctions	2,784,094,184	3,337,837,666	965,665,392	1,160,430,710
Property and other assets acquired in lieu of payment (Note 14)	58,307,080	37,948,721	31,509,821	8,897,845
Loss on allowance for impairment of foreclosed assets and per legal requirement (Note 14)	736,905,682	8,358,963,568	381,933,558	1,192,202,859
Other expenses for foreclosed assets	24,884,704	29,865,044	14,993,850	23,015,166
	¢ <u>9,021,362,832</u>	<u>14,565,293,019</u>	<u>2,767,262,941</u>	<u>3,146,949,250</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Provision expenses

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Severance benefits	¢ 89,664,528	76,500,033	27,712,948	17,120,203
Pending litigation	1,114,763,533	629,223,040	536,835,672	373,372,879
“BN Premios” points program	1,661,768,378	1,932,421,215	659,882,905	688,348,641
Case of the manager commissions with CCSS	912,158,736	836,629,027	228,039,684	294,672,138
Case of the RIVM contribution	-	600,920,714	-	-
Notice of deficiency	977,802,317	1,466,703,475	-	488,901,158
Other provisions	333,886,642	3,066,864	333,184,677	170,052
	¢ <u>5,090,044,134</u>	<u>5,545,464,368</u>	<u>1,785,655,886</u>	<u>1,862,585,071</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Other operating expenses

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

	September		Quarter from July 1 to September 30	
	2021	2020	2021	2020
Penalties for noncompliance with regulatory legal provisions	¢ 1,718,644	5,400	596,535	5,400
Net valuation of other liabilities	80,217,505	1,274,699,342	22,486,872	788,605,402
Value-added tax expense	797,381,957	625,794,659	269,647,296	234,410,272
Income tax on foreign remittances	5,648,238	5,050,743	1,895,093	1,709,134
Income tax (8%) on interest on investments in financial instruments	16,316,880	-	16,316,880	-
Property tax	195,348,555	174,527,792	65,846,762	54,939,385
Patents	663,729,784	1,036,082,813	244,382,769	596,950,999
Other local taxes	65,517,707	68,696,252	16,613,197	16,904,340
Other foreign taxes	17,752	-	6,220	-
Transfer to FINADE	1,545,417,257	2,153,686,368	456,007,091	882,733,477
Costs of microfinance insurance policies	-	2,424,523,858	-	810,051,757
Amortization of deferred direct costs related to loans	272,216,932	270,932,670	102,473,512	102,667,994
Authorization abroad	-	1,225,325,383	-	263,628,919
Base I and II fund disbursements	12,453,436,065	10,534,816,413	4,262,143,123	3,017,867,280
Life insurance policy debit balance	6,353,732,934	6,331,376,876	-	2,139,219,157
Software maintenance and licenses	8,531,554,516	7,648,907,266	2,460,527,975	2,832,148,950
Sundry operating expenses	8,552,902,629	3,794,837,370	5,082,387,410	1,176,994,175
Other expenses for sundry assets	159,463	216,984	-	-
	<u>¢ 39,535,316,818</u>	<u>37,569,263,205</u>	<u>13,001,330,735</u>	<u>12,918,836,641</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Personnel expenses

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

	September		Quarter from July 1 to September 30	
	2021	2021	2021	2021
Salaries and bonuses, permanent staff	¢ 52,605,102,684	53,119,530,316	17,888,994,508	17,725,198,409
Salaries and bonuses, contractors	581,685,972	1,001,048,496	195,702,723	290,431,584
Compensation for directors and statutory examiners	182,490,819	176,988,222	59,111,430	62,070,369
Overtime	349,566,035	414,585,659	124,817,097	91,387,669
Travel expenses	128,715,471	169,700,643	45,524,473	40,973,625
Statutory Christmas bonus	5,651,640,958	5,427,817,444	1,930,925,953	1,818,526,639
Vacation	4,501,238,683	4,303,628,885	1,505,987,492	1,443,955,210
Incentives	2,463,020,377	2,148,939,744	796,121,383	678,405,132
Other compensation	4,152,583,416	2,690,861,435	1,404,744,892	886,598,701
Severance benefits	3,232,818,761	3,173,966,822	1,103,772,247	1,070,474,057
Employer social security taxes	22,464,951,503	20,448,099,860	7,635,598,241	6,836,161,744
Refreshments	30,325,016	200,004,236	10,435,195	57,827,059
Uniforms	24,958,621	22,801,867	6,824,101	1,471,293
Training	249,036,280	259,953,535	108,040,612	125,192,184
Employee insurance	180,768,607	173,114,188	61,561,343	140,809,478
Back-to-school bonus	4,772,921,962	4,636,272,433	1,640,419,945	1,569,148,805
Mandatory retirement savings account	1,106,807,717	1,959,919,832	372,681,856	654,387,295
Other personnel expenses	594,819,538	598,111,747	142,929,841	201,854,722
¢	<u>103,273,452,420</u>	<u>100,925,345,364</u>	<u>35,034,193,332</u>	<u>33,694,873,975</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(47) Other administrative expenses

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

		September		Quarter from July 1 to September 30	
		2021	2020	2021	2020
Outsourcing	¢	17,765,149,977	15,166,593,916	5,938,919,064	5,145,675,186
Transportation and communications		2,452,536,193	2,798,111,336	857,095,131	918,225,360
Infrastructure		19,132,042,032	19,138,326,799	6,305,056,117	6,246,879,335
Overhead		12,360,835,636	11,348,391,039	4,579,636,391	4,336,396,592
	¢	<u>51,710,563,838</u>	<u>48,451,423,090</u>	<u>17,680,706,703</u>	<u>16,647,176,473</u>

(48) Statutory allocations

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

		September		Quarter from July 1 to September 30	
		2021	2020	2021	2020
CONAPE - 5%	¢	2,237,604,865	1,875,283,859	729,807,223	614,082,761
CNE - 3%		1,535,894,784	1,279,244,752	501,218,622	421,630,058
INFOCOOP - 10%		3,131,667,662	2,549,621,598	1,008,941,717	830,560,990
Public capital pension operators		1,436,304,647	1,067,993,903	466,099,162	312,618,409
RIVM - 15%		2,901,964,682	2,307,114,415	943,428,539	731,685,244
	¢	<u>11,243,436,640</u>	<u>9,079,258,527</u>	<u>3,649,495,263</u>	<u>2,910,577,462</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(49) Fair value of financial instruments

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

		September 2021	
		Carrying amount	Fair value
<u>Financial assets:</u>			
Cash and due from banks	¢	1,273,634,653,388	1,273,634,653,388
Loan portfolio		4,427,218,153,945	4,138,830,370,937
	¢	<u>5,700,852,807,333</u>	<u>5,412,465,024,325</u>
<u>Financial liabilities:</u>			
Demand deposits from the public and financial entities	¢	3,923,692,410,745	3,923,692,410,745
Term deposits from the public and financial entities		14,847,106,934	14,847,106,934
Obligations with entities		2,757,797,655,085	2,729,398,263,018
	¢	<u>6,696,337,172,764</u>	<u>6,667,937,780,697</u>
		September 2020	
		Carrying amount	Fair value
<u>Financial assets:</u>			
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>
<u>Financial liabilities:</u>			
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 with entities		14,219,737,164	14,219,737,164
	¢	<u>6,547,939,288,332</u>	<u>6,543,092,958,058</u>

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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, accrued interest receivable, other receivables, demand deposits from the public, accrued interest payable, and other liabilities

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

- (b) *Loan portfolio*

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of September 30, 2021.

- (c) *Term deposits*

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

- (d) *Obligations with entities*

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2021			Total
	Level 1	Level 2	Level 3	
Fair value through other comprehensive income	787,322,340,780	7,325,550,821	-	794,647,891,601
Amortized cost	841,559,264,140	2,258,418,313	-	843,817,682,453
Fair value through profit or loss	-	32,913,142,361	4,503,497,007	37,416,639,368
Derivative financial instruments	-	-	11,772,045,150	11,772,045,150
Term obligations with foreign financial entities	-	-	210,402,474,091	210,402,474,091

	September 2020			Total
	Level 1	Level 2	Level 3	
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).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2021			September 2020		
		Available for sale	Derivative financial instruments	Term obligations with foreign financial entities	Available for sale	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,414,744,410	-	-	4,488,288,925	10,742,740,489	489,650,619,452
Valuation		1,595,100,103	11,771,654,518	9,325,004,491	1,537,301,203	5,815,701,312	6,854,467,601
Amortizations		-	-	1,364,768,595	-	-	(208,403,383)
Exchange differences		(1,506,347,506)	390,632	199,712,701,005	(1,730,053,056)	689,499,817	(101,407,783,454)
Closing balance	¢	4,503,497,007	11,772,045,150	210,402,474,091	4,295,537,072	17,247,941,618	394,888,900,216

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Segments

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

September 30, 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	¢ 1,268,894,904,406	4,109,344,178	440,235,972	1,015,689,741	63,340,644	1,274,523,514,941	888,861,553	1,273,634,653,388
Investments in financial instruments	1,636,500,190,696	30,793,000,860	11,153,523,864	13,320,359,525	7,877,894,156	1,699,644,969,101	397,212,000	1,699,247,757,101
Loan portfolio, net	4,274,007,727,172	-	-	-	-	4,274,007,727,172	-	4,274,007,727,172
Accounts and fees and commissions receivable, net	2,268,963,657	142,422,234	129,496,367	1,651,835,976	610,389,971	4,803,108,205	79,239,641	4,723,868,564
Fees and commissions receivable	518,155,991	36,971,489	28,417,414	754,543,829	446,584,960	1,784,673,683	75,107,383	1,709,566,300
Accounts receivable for transactions with related parties	18,852,772	4,603,984	-	2,165,753	-	25,622,509	4,132,258	21,490,251
Deferred tax and income tax receivable	1,607,362,428	100,846,743	100,134,328	888,164,272	161,991,589	2,858,499,360	-	2,858,499,360
Other receivables	4,246,448,839	18	7,832,760	66,620,985	1,813,422	4,322,716,024	-	4,322,716,024
Accrued interest receivable	3,088,317	-	-	-	-	3,088,317	-	3,088,317
Allowance for impairment	(4,124,944,689)	-	(6,888,135)	(59,658,863)	-	(4,191,491,687)	-	(4,191,491,687)
Foreclosed assets, net	31,255,661,448	-	-	-	-	31,255,661,448	-	31,255,661,448
Investments in other companies	123,126,878,938	30,000,000	-	-	-	123,156,878,938	48,566,836,400	74,590,042,538
Property and equipment, net	204,873,773,987	609,508,454	293,153,002	283,118,409	85,392,866	206,144,946,718	-	206,144,946,718
Other assets	72,743,487,869	981,047,320	1,016,445,554	793,876,356	1,076,309,823	76,611,166,922	-	76,611,166,922
TOTAL ASSETS	¢ 7,613,671,588,173	36,665,323,046	13,032,854,759	17,064,880,007	9,713,327,460	7,690,147,973,445	49,932,149,594	7,640,215,823,851
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 5,776,391,123,136	-	-	-	-	5,776,391,123,136	-	5,776,391,123,136
Obligations with BCCR	169,034,639,545	-	-	-	-	169,034,639,545	-	169,034,639,545
Obligations with entities	744,593,492,188	15,427,151,514	-	-	-	760,020,643,702	1,283,869,568	758,736,774,134
Demand	71,046,127,216	-	-	-	-	71,046,127,216	886,657,568	70,159,469,648
Term	665,728,096,339	15,421,056,096	-	-	-	681,149,152,435	397,212,000	680,751,940,435
(Deferred expenses for own loan portfolio)	(55,768,264)	-	-	-	-	(55,768,264)	-	(55,768,264)
Finance charges payable	7,875,036,896	6,095,418	-	-	-	7,881,132,314	-	7,881,132,314
Accounts payable and provisions	115,670,818,817	4,491,390,304	2,249,804,131	4,048,679,223	1,692,523,725	128,153,216,200	79,239,664	128,073,976,536
Other liabilities	29,978,126,821	-	-	-	-	29,978,126,821	2,203,985	29,975,922,836
Subordinated obligations	47,457,204,527	-	-	-	-	47,457,204,527	-	47,457,204,527
TOTAL LIABILITIES	¢ 6,883,125,405,034	19,918,541,818	2,249,804,131	4,048,679,223	1,692,523,725	6,911,034,953,931	1,365,313,217	6,909,669,640,714

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 30, 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	5,000,000,000	7,035,880,659	369,700,000	191,242,610,761	19,005,580,659	172,237,030,102
Non-capitalized capital contributions	¢ -	-	-	359,044,350	-	359,044,350	359,044,350	-
Equity adjustments	96,861,384,734	322,326,299	547,935,379	1,945,188,582	-	99,676,834,994	2,815,450,259	96,861,384,735
Capital reserves	365,144,722,092	1,320,000,000	600,000,000	300,000,000	73,940,000	367,438,662,092	2,293,940,000	365,144,722,092
Prior-period retained earnings	39,801,486,842	6,189,360,724	2,166,181,397	1,939,782,548	4,958,918,671	55,055,730,182	15,254,243,340	39,801,486,842
Income for the period	14,814,055,348	2,315,094,203	2,468,933,853	1,436,304,647	2,618,245,038	23,652,633,089	8,838,577,745	14,814,055,344
FOFIDE	41,687,504,022	-	-	-	-	41,687,504,022	-	41,687,504,022
TOTAL EQUITY	¢ 730,546,183,140	16,746,781,226	10,783,050,629	13,016,200,786	8,020,803,709	779,113,019,490	48,566,836,353	730,546,183,137
TOTAL LIABILITIES AND EQUITY	¢ 7,613,671,588,174	36,665,323,044	13,032,854,760	17,064,880,009	9,713,327,434	7,690,147,973,421	49,932,149,570	7,640,215,823,851
Debit memoranda accounts	¢ 500,485,450,197	89,197,449	100,000	31,918,461	2,840,000	500,609,506,107	-	500,609,506,107
Income from cash and due from banks and financial instruments	¢ 2,762,086,902,339	1,275,083,952	-	-	-	2,763,361,986,291	-	2,763,361,986,291
Trust liabilities	¢ 124,549,240,769	391,366	-	-	-	124,549,632,135	-	124,549,632,135
Trust equity	¢ 2,637,537,661,571	1,274,692,586	-	-	-	2,638,812,354,157	-	2,638,812,354,157
Other debit memoranda accounts	¢ 26,044,877,985,466	1,186,429,394,725	762,311,943,599	2,231,664,088,444	-	30,225,283,412,234	-	30,225,283,412,234
For the nine months ended September 30, 2021								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢ 329,996,757,462	2,223,407,037	772,526,938	950,689,105	164,216,854	334,107,597,396	33,641,868	334,073,955,528
Finance costs	123,185,597,101	214,395,102	69,195,674	2,868,376	345,534	123,472,401,787	33,641,868	123,438,759,919
Allowance expense	75,056,788,782	7,077,623	60,407,621	67,768,610	12,309,430	75,204,352,066	-	75,204,352,066
Income from recovery of assets	11,305,832,390	31,801,544	32,060,791	28,458,630	7,940,750	11,406,094,104	-	11,406,094,104
FINANCE INCOME	143,060,203,969	2,033,735,856	674,984,434	908,510,749	159,502,640	146,836,937,648	-	146,836,937,648
Other operating income	123,667,660,024	5,351,621,362	5,818,151,607	8,856,994,290	5,752,832,603	149,447,259,886	10,553,404,327	138,893,855,559
Other operating expenses	78,497,307,113	682,469,691	563,134,565	1,359,838,375	95,692,187	81,198,441,931	1,648,157,788	79,550,284,143
GROSS OPERATING INCOME	188,230,556,880	6,702,887,527	5,930,001,476	8,405,666,664	5,816,643,056	215,085,755,603	8,905,246,539	206,180,509,064
Personnel expenses	93,490,907,179	2,929,939,837	1,797,639,990	3,375,824,112	1,679,141,301	103,273,452,419	-	103,273,452,419
Other administrative expenses	49,987,552,392	373,866,489	450,500,437	736,307,977	229,005,334	51,777,232,629	66,668,790	51,710,563,839
Total administrative expenses	143,478,459,571	3,303,806,326	2,248,140,427	4,112,132,089	1,908,146,635	155,050,685,048	66,668,790	154,984,016,258
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	44,752,097,308	3,399,081,201	3,681,861,049	4,293,534,575	3,908,496,421	60,035,070,555	8,838,577,749	51,196,492,806
Income tax	21,539,761,951	1,063,459,600	1,154,953,616	1,349,174,656	1,194,263,309	26,301,613,132	-	26,301,613,132
Decrease in income tax	950,362,788	81,445,037	52,482,251	57,055,413	21,266,823	1,162,612,315	-	1,162,612,315
Statutory allocations	9,348,642,796	101,972,436	110,455,831	1,565,110,684	117,254,893	11,243,436,640	-	11,243,436,640
INCOME FOR THE PERIOD	¢ 14,814,055,349	2,315,094,202	2,468,933,853	1,436,304,648	2,618,245,042	23,652,633,098	8,838,577,753	14,814,055,345

(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 and reclassifications	Consolidated
ASSETS								
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 receivable	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
Accounts receivable for 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 receivable	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 receivables	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 receivable	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
TOTAL ASSETS	€ 7,413,307,502,247	62,613,043,606	12,817,157,746	13,459,667,967	7,925,281,040	7,510,122,652,607	47,166,075,056	7,462,956,577,550
LIABILITIES AND EQUITY								
LIABILITIES								
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 loan 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
TOTAL LIABILITIES	€ 6,706,079,728,610	43,078,244,568	2,050,079,618	3,516,100,074	1,711,651,920	6,756,435,804,790	707,000,875	6,755,728,803,915

(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 and reclassifications	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 period	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
For the nine months ended September 30, 2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) 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	
	2021	2020		2021	2020
Banco Nacional de Costa Rica	385	350	First instance	¢ 130,477,072,078	125,482,941,920
	15	18	Second instance	20,600,271,730	19,942,334,035
	15	12	Appeal	6,552,616,063	5,443,867,809
	<u>415</u>	<u>380</u>		<u>157,629,959,871</u>	<u>150,869,143,764</u>
BN Vital	<u>7</u>	<u>7</u>	First instance	<u>31,918,461</u>	<u>39,762,952</u>
BN Valores	<u>1</u>	<u>1</u>	First instance	<u>89,197,449</u>	<u>72,315,128</u>
BN SAFI	<u>1</u>	<u>1</u>	First instance	<u>100,000</u>	<u>100,000</u>
BN Corredora	<u>1</u>	<u>1</u>	First instance	<u>2,840,000</u>	<u>2,840,000</u>
	<u>425</u>	<u>390</u>	(Note 22)	¢ <u>157,754,015,781</u>	<u>150,984,161,844</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain; they are not booked in the accounting records. As of September 30, lawsuits are as follows:

Number of cases		Phase	Total estimated amount	
2021	2020		2021	2020
329	331	First instance	¢ 79,622,884,550	79,708,400,960
1	1	Second instance	375,839,600	375,839,600
1	-	Appeal	281,909,729	-
331	332	Total	¢ 80,280,633,879	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, 2021, the Bank booked a provision in the amount of ¢820,669,567 for that lawsuit.

The following lawsuits are also worth noting:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Emergency caused by COVID-19

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

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

As a result, as of September 30, 2021, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,854,213,643,248, representing 42.80% of the total loan portfolio (September 2020: ¢1,723,020,725,181, representing 40.73% of the total loan portfolio).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2021	September 2020
Agriculture and forestry	50,507,584,680	43,450,877,410
Trade	190,162,592,081	198,271,352,259
Construction	57,705,816,520	45,360,386,543
Consumer or personal loans	150,806,296,369	164,790,064,169
Electricity, water, sanitation and other related sectors	156,550,994,088	80,177,712,807
Mining	326,102,495	340,922,418
Livestock, hunting and fishing	33,398,759,808	30,981,326,902
Industry	88,921,345,941	86,627,733,488
Services	400,449,006,597	401,145,823,430
Financial service	2,109,452,412	2,377,310,746
Transportation, communication and storage	39,637,828,435	41,111,925,343
Tourism	168,327,866,731	156,067,003,048
Housing	515,309,997,092	472,318,286,612
Subtotal	1,854,213,643,249	1,723,020,725,175
Accounts and accrued interest receivable	2,792,514,885	2,127,635,976
Loans restructured due to COVID-19	1,857,006,158,134	1,725,148,361,152
Allowance for doubtful accounts	(48,433,199,902)	(23,232,947,981)
Total loan portfolio, net	1,808,572,958,232	1,701,915,413,171

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2021	September 2020
Current	¢ 1,689,874,100,079	1,718,803,357,950
1 to 30 days	69,914,912,387	2,203,528,363
31 to 60 days	22,729,690,954	665,776,442
61 to 90 days	19,815,660,143	494,139,213,07
91 to 120 days	10,853,252,741	730,897,568,86
121 to 150 days	3,610,105,732	42,728,598,71
In legal collection	37,415,921,206	80,297,044,06
	<u>1,854,213,643,242</u>	<u>1,723,020,725,180</u>
Accounts and accrued interest receivable	<u>2,792,514,885</u>	<u>2,127,635,976</u>
Total loans restructured due to COVID-19	1,857,006,158,127	1,725,148,361,156
Allowance for loan losses	<u>(48,433,199,902)</u>	<u>(23,232,947,981)</u>
Loan portfolio, net	<u>¢ 1,808,572,958,225</u>	<u>1,701,915,413,175</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2021	September 2020
Collateral	¢ 66,187,598,160	148,563,141,311
Surety	24,823,838,401	3,511,075,808
Assignment of loans	60,042,741,798	5,744,545,553
Back-to-back	4,164,949,509	-
Mortgage	810,808,245,256	938,917,178,992
Trust	177,805,347,932	25,449,110,146
Surety - Mortgage	195,312,179,307	9,946,149,070
Surety - Trust	281,787,178,581	12,222,604,342
Other	191,005,112,447	71,847,833,491
Not assigned	3,160,946,668	192,990,110
Surety - Collateral	9,626,265,132	-
Collateral - Mortgage	1,177,497,341	45,599,809
Collateral - Securities	21,571,160	-
Surety - Collateral - Mortgage	3,641,249,766	120,438,076
Securities	187,190,995	-
Mortgage - Trust	222,185,775	-
Collateral - Back-to-back	9,418,805	119,271,843
Surety - Securities	139,785,153	-
Bond guaranteed by mortgage	9,262,682	-
Collateral - Trust	24,081,078,381	506,340,786,629
	<u>1,854,213,643,249</u>	<u>1,723,020,725,180</u>
Accounts and accrued interest receivable	2,792,514,885	2,127,635,977
Loans restructured due to COVID-19	1,857,006,158,134	1,725,148,361,156
Allowance for loan losses	(48,433,199,902)	(23,232,947,981)
Loan portfolio, net	¢ <u>1,808,572,958,232</u>	<u>1,701,915,413,175</u>

As of September 30, 2021, 9.02% of a total of ¢1,185,421,363,249 maintains temporary credit conditions, which represents 3.86% of the entire loan portfolio (September 2020: ¢1,723,020,725,180 maintained temporary credit conditions, representing 40.73% of the total loan portfolio).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- 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 and encouraging personnel and customers to wash their hands before and after their transactions, or at least once every hour.
- 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 drive-through tellers (*autobancos*) that were not in operation were activated.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

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b) Measures to support customers with credits

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

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

d) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bonds portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of September 30, 2021, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

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(53) Adjustment due to implementation of regulations

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

Adjustments to prior period retained earnings are as follows:

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

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

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

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

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(54) Relevant Events

a) *Tax audit process – Costa Rican Tax Administration Period 2017*

As of September 30, 2021, Banco Nacional de Costa Rica is in a verification and investigation process by the National Large Taxpayer Audit Area of the Costa Rican Tax Administration, in order to perform a review of the income tax for 2017.

This tax audit was notified through document DGCN-SF-PD-25-2021 on March 31, 2021 and is currently in a review process by the Tax Administration.

b) *Term deferred operations*

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

As of September 30, 2021, 2,683 loan operations under this modality were placed, applying a discount to the interest rate on the loans in colones in the amount of ₡165,293 million, reaching an average rate of the operations already processed of 6.1%. The remaining average maturity term is 12.5 years.

c) *Law for Creation of the Deposit Guarantee Fund and of the Resolution Mechanisms of Financial Intermediaries*

According to the *Law for Creation of the Deposit Guarantee Fund and of the Resolution Mechanisms of Financial Intermediaries* (Law No. 9816), a deposit guarantee fund is created whose purpose is to strengthen the financial safety network of the national financial system through the creation of the Deposit Guarantee Fund and Resolution Mechanisms of Regulated Financial Intermediaries.

From the publication of the Regulation of the management of the Deposit Guarantee Fund and other guarantee funds on Wednesday, February 3, 2021, and its entrance into effect three months later, SUGEF-regulated financial intermediaries should contribute with no more than 15% of the deposits guaranteed by the entity. That is an annual contribution that will be paid quarterly within ten business days after the end of each quarter.

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As of September 30, 2021, the Conglomerate recognizes in its financial statements the amount of ¢119,336,027,871 corresponding to the quarterly contribution.

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

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

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

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

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

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

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

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

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Notes to the Consolidated Financial Statements

b) IAS 38: Intangible assets

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

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

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

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

d) IFRS 9: Financial Instruments

- a) For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.
- b) The application of the measurement of ECL on investment funds of the money market category, as provided under IFRS 9, required by Articles 3 and 18 of the RFI, will be effective on January 1, 2022.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c) Regulated entities should have policies and procedures in place to determine the amount of the suspension of the booking of the accrual of commissions and interest on loan operations. However, the accrual suspension term should not exceed 180 days.

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

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

- i. The provisions of Article 10 of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* will be effective beginning January 1, 2019. on initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.
- ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, corresponding to tax periods 2017 and previous periods, will be booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest, and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(56) Disclosure of economic impact of departure from IFRS

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

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