

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of September 30, 2023
(With corresponding figures for 2022)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2023 AND 2022 AND DECEMBER 31, 2022
(In colones)

	Note	September 2023	December 2022	September 2022
ASSETS				
Cash and due from banks	9	1,461,741,211,689	1,470,874,684,814	1,465,499,712,405
Cash		118,550,158,307	120,946,392,526	119,607,550,059
BCCR		982,659,956,359	876,032,752,531	858,371,242,863
Local financial entities		780,865,895	704,838,436	1,320,049,674
Foreign financial entities		221,389,877,736	339,557,541,465	355,796,056,702
Notes payable on demand		6,147,823,596	7,446,883,299	7,275,525,421
Restricted cash and due from banks		132,212,529,796	126,186,276,557	123,129,287,686
Investments in financial instruments	10	1,661,795,750,559	1,467,745,173,616	1,609,323,648,318
At fair value through profit or loss (FVTPL)		15,782,130,364	24,433,857,502	27,043,332,506
At fair value through other comprehensive income (FVOCI)		699,764,397,217	585,704,089,628	644,433,515,301
At amortized cost		931,147,926,017	840,653,764,943	927,102,440,644
Derivative financial instruments	11	88,383,101	16,413,585	79,318,470
Accrued interest receivable		17,997,275,417	19,867,240,764	13,479,042,574
(Allowance for impairment of investments in financial instruments)		(2,984,361,557)	(2,930,192,806)	(2,814,001,177)
Loan portfolio	12	4,871,080,243,342	4,632,292,699,015	4,573,308,990,926
Current		4,630,967,626,398	4,422,146,926,877	4,361,142,651,174
Past due		234,531,100,537	190,260,399,038	178,391,763,066
In legal collection		78,250,215,703	93,248,724,856	107,569,107,085
Direct incremental costs related to loans		6,153,560,008	5,755,898,412	5,565,119,085
(Deferred income on loan portfolio)		(46,460,289,872)	(41,927,136,381)	(40,341,717,781)
Accrued interest receivable		97,656,025,911	102,173,613,358	107,657,139,670
(Allowance for loan losses)		(130,017,995,343)	(139,365,727,145)	(146,675,071,373)
Accounts and fees and commissions receivable	13	5,304,027,289	9,967,610,496	12,035,423,137
Fees and commissions receivable		1,959,125,613	1,800,614,015	2,437,661,382
Accounts receivable for brokerage operations		11,000,000	-	130,512,093
Accounts receivable for transactions with related parties		33,263,210	14,608,355	21,077,941
Deferred tax and income tax receivable		2,721,815,394	7,897,198,300	9,256,530,695
Other receivables		4,666,339,396	4,584,146,968	4,605,644,520
Accrued interest receivable		1,464,034	725,933	1,947,371
(Allowance for impairment of accounts and fees and commissions receivable)		(4,088,980,358)	(4,329,683,075)	(4,417,950,865)
Assets held for sale	14	37,649,089,247	37,495,457,395	38,682,611,322
Assets and securities acquired in lieu of payment		99,832,085,156	98,126,485,936	100,763,648,934
Other assets held for sale		-	55,884,628	55,884,629
(Allowance for impairment of assets held for sale and per legal requirement)		(62,182,995,909)	(60,686,913,169)	(62,136,922,241)
Investments in other companies	15	68,476,470,067	73,366,699,575	76,411,893,665
Property, furniture and equipment, net	16	226,248,994,301	206,368,265,833	205,278,128,332
Other assets	17	56,640,548,321	69,244,449,061	67,618,412,283
Deferred charges		3,583,044,210	14,330,485,937	17,919,186,714
Intangible assets		5,111,653,229	8,977,676,831	6,987,375,290
Other assets		47,945,850,882	45,936,286,293	42,711,850,279
TOTAL ASSETS		8,388,936,334,815	7,967,355,039,805	8,048,158,820,388

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF SEPTEMBER 30, 2023 AND 2022 AND DECEMBER 31, 2022
(In colones)

LIABILITIES AND EQUITY	Note	September 2023	December 2022	September 2022
LIABILITIES				
Obligations with the public	18	6,580,303,918,724	6,142,055,961,261	6,257,090,068,934
Demand obligations		4,515,713,905,842	4,314,717,356,387	4,394,322,696,819
Term obligations		2,005,263,247,066	1,790,666,793,187	1,832,533,313,824
Finance charges payable		59,326,765,816	36,671,811,687	30,234,058,291
Obligations with BCCR	19	153,165,121,868	166,961,956,341	166,625,500,558
Term obligations		150,220,610,244	164,696,408,078	164,696,408,078
Finance charges payable		2,944,511,624	2,265,548,263	1,929,092,480
Obligations with entities	20	634,531,674,298	664,921,757,098	642,182,389,072
Demand obligations		59,273,418,134	45,264,635,945	51,153,976,935
Term obligations		568,651,111,231	616,971,270,043	585,198,346,744
Other obligations with entities		-	(103,269,735)	(56,034,847)
Finance charges payable		6,607,144,933	2,789,120,845	5,886,100,240
Accounts payable and provisions		165,768,186,442	154,044,435,178	154,559,323,806
Provisions	22	18,427,191,627	10,847,150,398	19,173,656,682
Accounts payable for brokerage services		1,210,008,893	778,552,285	3,402,263,339
Deferred tax	21-b	14,536,509,639	14,363,629,546	14,714,815,536
Other sundry accounts payable	23	131,594,476,283	128,055,102,949	117,268,588,249
Other liabilities	24	26,395,418,784	30,496,879,207	26,823,111,844
Deferred income		77,521,399	100,946,981	92,595,845
Other liabilities		26,317,897,385	30,395,932,226	26,730,515,999
Subordinated obligations	25	59,801,509,375	68,908,170,318	71,502,770,427
Subordinated obligations		58,980,562,500	66,820,890,000	70,706,460,000
Finance charges payable		820,946,875	2,087,280,318	796,310,427
TOTAL LIABILITIES		7,619,965,829,491	7,227,389,159,403	7,318,783,164,641
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		72,965,092,990	65,091,090,087	65,989,994,282
Reserves	26-b	422,588,684,812	387,165,279,581	386,130,513,869
Prior-period retained earnings		33,213,764,688	33,719,121,136	34,447,976,901
Income for the period		19,341,337,506	37,316,763,826	26,133,544,923
Capital contributions in special funds	26-c	48,624,595,226	44,436,595,670	44,436,595,670
TOTAL EQUITY		768,970,505,324	739,965,880,402	729,375,655,747
TOTAL LIABILITIES AND EQUITY		8,388,936,334,815	7,967,355,039,805	8,048,158,820,388
DEBIT MEMORANDA ACCOUNTS	27	438,188,126,669	443,749,725,955	515,785,475,723
TRUST ASSETS	28	2,865,539,295,629	3,310,308,330,129	3,417,126,814,336
TRUST LIABILITIES		65,648,180,980	83,308,242,976	88,636,855,832
TRUST EQUITY		2,799,891,114,649	3,227,000,087,153	3,328,489,958,504
TRUST MEMORANDA ACCOUNTS		7,010,598,990	223,028,308,333	223,077,057,232
OTHER DEBIT MEMORANDA ACCOUNTS	29	34,172,168,900,235	39,494,091,556,694	39,882,874,613,158
Own debit memoranda accounts		11,282,870,747,578	18,160,191,749,226	18,336,955,255,146
Third-party debit memoranda accounts		4,910,066,253,572	4,722,010,921,517	4,803,573,087,121
Own debit memoranda accounts for custodial activities		834,934,193,211	527,864,839,532	584,143,060,063
Third-party debit memoranda accounts for custodial activities		17,144,297,705,874	16,084,024,046,419	16,158,203,210,828

Bernardo Alfaro Araya
Gerente General

Alejandra Morales Centeno
Contadora General
CPI 21119

Ricardo Araya Jiménez
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BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO
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VERIFICACIÓN: QjWbL4Bu
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(In colones)

		For the nine months ended		For the three months ended	
	Note	September 2023	September 2022	September 2023	September 2022
Finance income					
Cash and due from banks	33	10,881,127,960	3,071,245,890	3,683,182,644	2,120,290,052
Investments in financial instruments	33	65,636,667,207	38,418,779,358	23,752,899,112	13,888,888,120
Loan portfolio	34	358,592,931,640	285,059,008,669	120,948,795,292	102,485,630,876
Gain on foreign exchange differences and DU, net	6-d	-	30,306,985	-	(215,669,983)
Gain on financial instruments at FVTPL		301,905,525	183,907,333	115,408,929	90,230,800
Gain on financial instruments at FVOCI		5,264,719,188	2,628,700,950	1,183,552,868	95,168,709
Other finance income	35	4,156,785,642	11,449,756,122	732,090,341	1,757,929,095
Total finance income		444,834,137,162	340,841,705,307	150,415,929,186	120,222,467,669
Finance costs					
Obligations with the public	36	182,731,386,092	83,573,087,663	64,304,511,908	34,858,470,449
Obligations with BCCR		984,300,757	1,129,830,166	316,536,841	408,904,985
Obligations with financial and non-financial entities	37	27,253,618,881	24,605,841,390	9,233,382,624	8,593,390,022
Subordinated, convertible and preferred obligations		4,994,029,136	4,106,531,814	1,697,693,029	1,598,805,644
Loss on foreign exchange differences and DU, net	6-d	1,948,668,909	-	208,740,234	-
Loss on financial instruments at FVTPL		1,040,280,278	108,036,200	34,847,695	1,713,534
Loss on financial instruments at FVOCI		2,035,159,850	2,636,183,341	1,181,861,384	827,026,827
Loss on derivative financial instruments, net	11	147,572,642	6,377,557,262	32,191,603	849,843,785
Other finance costs	38	5,324,119,815	6,804,693,417	2,145,025,099	728,796,008
Total finance costs		226,459,136,360	129,341,761,253	79,154,790,417	47,866,951,254
Allowance for impairment of assets	39	29,196,067,206	42,068,141,761	7,490,297,344	9,757,183,720
Recovery of assets and decrease in allowances	40	13,950,837,166	18,613,951,482	4,783,989,667	4,674,235,568
FINANCE INCOME		203,129,770,762	188,045,753,775	68,554,831,092	67,272,568,263
Other operating income					
Service fees and commissions	41	124,565,555,157	124,134,652,032	40,432,892,545	41,427,251,111
Assets held for sale		4,045,882,304	2,959,370,344	439,844,045	293,631,251
Gain on investments in other companies	8	2,437,345,903	1,468,437,168	797,784,618	519,705,390
Foreign currency exchange and arbitrage		25,107,219,020	20,254,461,040	7,776,275,047	6,477,031,554
Other income from related parties		21,712,693	-	8,188,224	-
Other operating income	42	7,797,169,183	5,578,877,833	1,009,160,929	1,549,426,587
Total other operating income		163,974,884,260	154,395,798,417	50,464,145,408	50,267,045,893

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS AND THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(In colones)

	Note	For the nine months ended September 2023	September 2022	For the three months ended September 2023	September 2022
Other operating expenses					
Service fees and commissions		31,048,118,895	30,852,806,515	9,496,466,605	10,195,544,755
Assets held for sale	43	11,879,807,220	12,854,089,983	4,279,964,119	3,123,166,762
Provisions	44	17,050,656,905	4,289,835,302	6,069,790,409	1,639,787,384
Bonuses on fees and commissions of voluntary pension funds		249,915,015	154,023,218	56,905,666	34,771,006
Foreign currency exchange and arbitrage		11,736,717	18,957,155	4,763,297	11,060,868
Other expenses with related parties		-	28,812,864	-	16,762,162
Other operating expenses	45	53,358,662,100	48,345,359,325	18,984,454,357	17,809,653,276
Total other operating expenses		113,598,896,852	96,543,884,362	38,892,344,453	32,830,746,213
GROSS OPERATING INCOME		253,505,758,170	245,897,667,830	80,126,632,047	84,708,867,943
Administrative expenses					
Personnel expenses	46	120,135,792,570	112,540,607,113	39,754,538,975	39,883,741,505
Other administrative expenses	47	60,252,669,458	58,260,774,902	21,695,957,526	20,637,879,846
Total administrative expenses		180,388,462,028	170,801,382,015	61,450,496,501	60,521,621,351
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		73,117,296,142	75,096,285,815	18,676,135,546	24,187,246,592
Current tax	21-a	22,613,788,656	21,467,458,480	6,271,230,799	6,872,652,933
Prior period income tax	21-a	10,664,429,022	10,641,928,449	3,547,309,482	3,547,309,483
Deferred tax	21-a	1,647,762,932	1,498,864,171	247,353,571	1,165,233,836
Decrease in income tax	21-a	-	50,507,323	-	50,507,323
Decrease in prior period income tax	21-a	22,678	-	-	-
Deferred tax income	21-a	1,234,952,647	1,450,866,403	226,448,176	413,876,659
Statutory allocations	48	20,084,953,351	16,880,782,038	4,965,917,595	5,304,742,749
Decrease in statutory allocations	48	-	24,918,520	-	24,918,520
INCOME FOR THE PERIOD		19,341,337,506	26,133,544,923	3,870,772,275	7,786,610,093
OTHER COMPREHENSIVE INCOME, NET OF TAX					
Items that will not be reclassified to profit or loss					
Surplus from revaluation of property		175,216,337	(1,170,772)	59,047,263	59,871,475
Other adjustments		(5,174,349,259)	(4,860,898,938)	(341,101,367)	(8,039,231,547)
Items that are or may be subsequently reclassified to profit or loss					
Adjustment for valuation of investments at FVOCI		13,455,682,092	(23,404,037,421)	2,497,634,731	(5,731,808,241)
Adjustment for valuation of restricted financial instruments		3,421	-	(17,732)	-
Surplus from revaluation of other assets		(644,902)	(8,773,248)	(217,330)	(8,773,248)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		8,455,907,689	(28,274,880,379)	2,215,345,565	(13,719,941,561)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		27,797,245,195	(2,141,335,456)	6,086,117,840	(5,933,331,468)

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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, 2022
(In colones)

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
Balance at December 31, 2021	172,237,030,102	93,316,808,915	364,737,238,098	41,687,504,022	59,538,410,067	731,516,991,204
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves	-	-	23,111,648,796	-	(23,111,648,796)	-
Other statutory reserves	-	-	(1,718,373,025)	-	1,718,373,025	-
Capital contributions in special funds	-	-	-	2,749,091,648	(2,749,091,648)	-
Total transactions with owners booked directly in equity	-	-	21,393,275,771	2,749,091,648	(24,142,367,419)	-
Comprehensive income for the period:						
Income for the period	-	-	-	-	26,133,544,922	26,133,544,922
Surplus from revaluation of property	-	(1,170,772)	-	-	-	(1,170,772)
Adjustment for valuation of investments at FVOCI	10	(23,404,037,421)	-	-	-	(23,404,037,421)
Surplus from revaluation of other assets	-	(8,773,249)	-	-	-	(8,773,249)
Other adjustments	-	(4,860,898,938)	-	-	-	(4,860,898,938)
Realization of surplus from revaluation of property	-	948,065,746	-	-	(948,065,746)	-
Total comprehensive income for the period	-	(27,326,814,634)	-	-	25,185,479,176	(2,141,335,458)
Balance at September 30, 2022	26	172,237,030,102	65,989,994,282	386,130,513,869	44,436,595,670	60,581,521,824
						729,375,655,747

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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, 2023
(In colones)

		Equity adjustments - Other				
	Note	Share capital	comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings
Balance at December 31, 2022		172,237,030,102	65,091,090,087	387,165,279,581	44,436,595,670	71,035,884,962
Adjustment to statutory allocations from prior periods		-	-	-	-	1,207,379,725
Balance at January 1, 2023		172,237,030,102	65,091,090,087	387,165,279,581	44,436,595,670	72,243,264,687
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves		-	-	37,365,747,265	-	(37,365,747,265)
Other statutory reserves		-	-	(1,942,342,034)	-	1,942,342,034
Capital contributions in special funds		-	-	-	4,187,999,556	(4,187,999,556)
Total transactions with owners booked directly in equity		-	-	35,423,405,231	4,187,999,556	(39,611,404,787)
Comprehensive income for the period:						
Income for the period		-	-	-	-	19,341,337,507
Surplus from revaluation of property		-	175,216,337	-	-	-
Adjustment for valuation of investments at FVOCI	10	-	13,455,682,092	-	-	-
Adjustment for valuation of restricted financial instruments	10	-	3,421	-	-	-
Surplus from revaluation of other assets		-	(644,902)	-	-	-
Other adjustments		-	(5,174,349,259)	-	-	-
Realization of surplus from revaluation of property		-	(581,904,787)	-	-	581,904,787
Total comprehensive income for the period		-	7,874,002,902	-	-	19,923,242,294
Balance at September 30, 2023	26	172,237,030,102	72,965,092,990	422,588,684,812	48,624,595,226	52,555,102,194

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(In colones)

	Note	September 2023	September 2022
Cash flows from operating activities			
Income for the period		19,341,337,506	26,133,544,923
Items not requiring cash			
Depreciation and amortization		18,201,377,500	16,961,424,403
(Gain) on foreign exchange differences and DU, net		(68,731,174,693)	(17,109,946,046)
Loss on sale of non-financial assets		3,321,788,316	4,042,916,176
Finance income		(424,229,598,847)	(323,477,788,027)
Finance costs		128,892,721,932	70,685,393,922
Allowance for investments, net		998,993,536	(827,748,631)
Allowance for loan losses and stand-by credits, net		25,153,633,437	39,627,434,497
Allowance for other accounts receivable, net		684,030,780	1,098,420,928
Loss on allowance for assets held for sale, net		1,551,967,367	3,241,443,851
Severance provision		22,352,662	(7,144,253)
Other provisions		(7,490,974,731)	2,932,401,154
Share of profit of foreign associate, net		(2,437,345,928)	(1,468,437,182)
Statutory allocations, net		20,084,953,351	16,855,863,518
Income tax expense, net	21-a	33,278,195,000	32,058,879,606
Deferred tax	21-a	412,810,285	47,997,768
		(250,944,932,527)	(129,205,343,393)
Cash flows from operating activities			
Loan portfolio		(413,677,170,591)	(181,050,887,514)
Accounts and fees and commissions receivable		2,223,704,808	(15,973,186,687)
Assets held for sale		18,130,486,473	12,736,040,738
Other assets		5,683,805,333	4,164,242,965
Obligations with the public		671,573,094,323	223,470,086,176
Obligations with BCCR and other entities		(29,030,938,516)	(165,301,285,579)
Obligations for accounts payable, fees and commissions payable and provisions		48,876,513,452	27,571,778,485
Other liabilities		(4,765,909,321)	(456,097,243)
		299,013,585,961	(94,839,308,659)
Income tax paid		(43,433,393,272)	(28,883,539,158)
Interest received on loan portfolio and investments		430,617,151,641	332,682,809,695
Interest paid on term obligations with the public and financial entities		(101,740,780,354)	(64,136,643,515)
Statutory allocations paid		(23,464,949,153)	(14,965,512,391)
Net cash from operating activities		310,046,682,296	652,462,579
Cash flows from investing activities			
Increase in financial instruments		(991,875,069,855)	(1,053,049,623,397)
Decrease in financial instruments		981,636,744,526	1,084,885,961,275
Acquisition of property, furniture and equipment		(47,346,789,654)	(23,508,214,985)
Sale of property, furniture and equipment		80,017,916	580,293,736
Acquisition of intangible assets		(553,353,946)	(1,744,491,444)
Net cash (used in) from investing activities		(58,058,451,013)	7,163,925,185
Cash flows from financing activities			
Settlement of financial obligations		(18,080,806,169)	(4,440,527,260)
Payment of lease liabilities		(1,572,160,030)	(1,879,823,188)
Net cash (used in) financing activities		(19,652,966,199)	(6,320,350,448)
Net increase in cash and cash equivalents		232,335,265,084	1,496,037,316
Cash and cash equivalents at beginning of period		1,578,737,708,410	1,611,376,144,164
Cash and cash equivalents at end of period	9	1,811,072,973,494	1,612,872,181,480

Bernardo Alfaro Araya
Gerente General

Alejandra Morales Centeno
Contadora General

Ricardo Araya Jiménez
Auditor General

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO
ALEJANDRA
Estado de Flujos de Efectivo
2023-11-21 09:13:13 -0600



TIMBRE 300.0 COLONES

VERIFICACIÓN: QJWbL4Bu
<https://timbres.contador.co.cr>

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023
(With corresponding figures for 2022)

(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 most digitalized, leading financial conglomerate in Costa Rica by offering the best customer experience, obtaining sufficient profitability levels to grow and support the health.

As of September 30, 2023, the Bank has 153 offices, 464 ATMs and along with its subsidiaries a total of 5,729 employees (2022: 154 offices, 467 ATMs and along with its subsidiaries a total of 5,624 employees). Employees are distributed as follows: Banco Nacional de Costa Rica 5,268 employees (2022: 5,158); BN Valores Puesto de Bolsa, S.A. 72 employees (2022: 71); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. 191 employees (2022: 198); BN Sociedad Administradora de Fondos de Inversión, S.A. 93 employees (2022: 90); and BN Sociedad Corredora de Seguros, S.A. 105 employees (2022: 107). 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 subsidiary Banco Nacional de Costa Rica:

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) 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. 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. The Bank holds 49% ownership interest in BICSA. 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 2023					
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢ 68,907,835,581	17,912,323,870	12,942,682,212	9,628,375,273	502,220,600,188
Liabilities	52,412,325,993	3,697,771,075	1,959,680,401	2,518,874,968	433,794,753,436
Equity	16,495,509,588	14,214,552,795	10,983,001,811	7,109,500,305	68,425,846,752
Income for the period	1,324,613,914	1,105,475,769	1,732,212,534	3,405,943,763	2,436,788,844
Memoranda accounts	1,160,452,093,650	2,459,263,281,960	649,414,515,318	-	-

December 2022					
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢ 53,998,448,234	13,868,650,585	15,927,288,029	9,783,029,447	588,931,766,217
Liabilities	38,842,564,802	2,296,125,412	4,121,716,886	2,819,472,905	515,615,689,933
Equity	15,155,883,432	11,572,525,173	11,805,571,143	6,963,556,542	73,316,076,284
Income for the year	1,007,595,715	2,691,837,651	1,426,919,471	4,122,954,777	1,948,010,227
Memoranda accounts	1,140,643,825,479	608,549,474,735	2,239,475,709,787	-	-

September 2022					
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢ 57,552,872,349	12,734,565,927	15,331,654,556	7,908,195,762	571,332,211,048
Liabilities	42,684,126,134	1,705,342,446	3,821,819,127	2,025,748,694	494,970,940,677
Equity	14,868,746,215	11,029,223,481	11,509,835,429	5,882,447,068	76,361,270,371
Income for the period	720,787,771	2,111,495,748	1,181,634,998	3,041,845,303	1,463,467,276
Memoranda accounts	1,143,444,488,786	653,228,583,213	2,204,653,028,061	-	-

(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 CONASSIF Agreement 6-18 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 (FVOCI), at fair value through profit or loss (FVTPL) and derivative financial instruments, which are measured at fair value; and assets held for sale, which are measured at the lower of their carrying amount and their estimated realizable value.

Loans, accounts receivable and deposits are initially recognized on the date on which they are originated. All other financial assets (including assets at FVTPL) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(4) Use of estimates and judgments

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

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

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

a- Judgments

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

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

b- Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the years ended September 30, 2023, is related to the impairment of financial instruments.

(i) Fair value measurement

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(5) Significant accounting policies

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

(a) Basis of consolidation

i. *Subsidiaries*

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

ii. *Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. As of September 30, 2023, the Bank holds 49% ownership interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

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

iii. *Loss of control*

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

iv. *Interests in equity-accounted investees*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

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

(b) Foreign currency

i. *Foreign currency transactions*

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

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, 2023, assets and liabilities in US dollars are valued at the exchange rate of ¢542.35 to US\$1.00 (December and September 2022: ¢601.99 and ¢632.72 to US\$1.00, respectively), 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, 2023, assets and liabilities denominated in euro are valued at the exchange rate of ₡573.91 to €1.00 (December and September 2022: ₡642.38 and ₡618.55 to €1.00, respectively), 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, 2023, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ₡1,012.09 to DU1.00 (December and September 2022: ₡1,028.84 and ₡1,042.79 to DU1.00, respectively). 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 year.

(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 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, FVOCI, or FVTPL, 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 FVTPL:

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

A financial asset is measured at FVOCI if it meets both of the following conditions and it is not designated as at FVTPL:

- 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 FVOCI as described above are measured at FVTPL.

On initial recognition, the Conglomerate may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent measurement and gains and losses

Financial assets at FVTPL 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 FVOCI 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 FVTPL.

A financial liability is classified as at FVTPL 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 FVTPL 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 FVTPL:

- investments in financial instruments (amortized cost and OCI)
- accrued interest receivable.

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

12-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 FVOCI are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

Loss allowances for financial assets measured at amortized cost are presented as a deduction from the gross carrying amount of the assets. For debt securities at FVOCI, 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(d) Impairment of non-financial assets

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

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

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

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

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

(iv) Derecognition

Financial assets

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Financial liabilities

The Conglomerate derecognizes a financial liability when its contractual obligations are discharged, canceled, 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 FVTPL.

(e) Derivative financial instruments

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Embedded derivatives

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

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

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

The Conglomerate currently has the following derivative financial instruments:

✓ Derivatives held for risk management

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

LIBOR ceased to be applied in the market; however, the 3-month and 6-month settings will continue to be published until 2023. Therefore, information will still be reflected with the LIBOR rate until new rates are negotiated for contracts effective as of that date.

✓ Derivatives other than hedges

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(g) Cash and cash equivalents

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

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

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Depreciation and amortization

Depreciation and amortization are 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 year. 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 Conglomerate is reasonably certain not to terminate early.

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

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

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

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

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

(k) Loan portfolio

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

The loan portfolio is presented at the amount of outstanding principal. Interest is calculated based on the value of outstanding principal and the contractual interest rates and is accounted for as income using the accrual method of accounting.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Allowance for loan losses

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

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

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

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

As of September 30, 2023, 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 22 of SUGEF Directive 9-20 *Regulations to Authorize and Execute Operations with Foreign Exchange Derivatives* 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 *Regulations on Capital Adequacy of Financial Entities*) 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) Assets held for sale

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

With the entrance into effect of CONASSIF Directive 06-18, communicated by means of Article 16 and Article 72 of IRNBS (Law No. 1644), the extension of the term from 24 months to 48 months, whereby the total (100%) allowance for impairment of assets held for sale must be applied. However, if it has not been sold within 24 months from the date of the award or receipt of the asset, the entity must request from the Superintendency an extension for an equal term for sale of the asset. The extension request may be denied by the Superintendency, providing adequate grounds for its decision, in which case it will require the creation of an allowance for 100% of the carrying amount. If the entity does not request an extension, it will also be required to create an allowance.

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Short-term employee benefits

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

Statutory Christmas bonus

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

Vacation

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

Incentives plan

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

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

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

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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 2022, there is an arbitration process underway, which prevents the payment of the incentive for 2020 and 2021.

Annuities

Since 2018, a constitutional motion was being processed against Article 37 of the Collective Bargaining Agreement relating to annuities. In Vote No. 2021025969, the Constitutional Chamber indicated that Article 37 of the VII Collective Bargaining Agreement was not unconstitutional; therefore, that article will remain during the validity term of the VII Collective Bargaining Agreement. However, this article was affected by the regulations of Law No. 9635, effective as of December 4, 2018, which modified the Law on Public Administration Salaries.

Consequently, the Bank already has the annuity calculations made by the Risk Division to analyze and book the provision starting as of the next period.

(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Defined benefit plans

The Bank's net obligation related to defined benefit plans is calculated separately for each plan, calculating the amount of the future benefit that employees have earned in exchange for their services in the current and previous periods, discounting that amount and deducting the fair value of plan assets.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(v) Employee Protection and Retirement Fund

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

- items established by the laws and regulations related to the Fund
- contributions made by the Bank equivalent to 10% of total wages
- contributions made by employees equivalent to 5% (September 2022: 5%) of total wages to strengthen the Fund; and
- income from investments made by the Fund and other potential income.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Currently, bill No. 21,824 named *Law to repeal the special, supplementary pension systems* seeks to repeal the Fund. This bill eliminates special supplementary pensions financed by the National Budget and proposes the elimination of the supplementary pension systems of the following public institutions: Banco de Costa Rica, Banco Nacional de Costa Rica, Junta de Protección Social, Instituto Costarricense de Electricidad (ICE), Caja Costarricense de Seguro Social (CCSS) and Instituto Costarricense de Turismo (ICT).

(s) Deferred income

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

(t) Legal reserve

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Other statutory reserves

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

Statutory reserve	Agreement of the Superintendency of Banks of Panama
Statutory reserve for assets held for sale	Agreement No. 003-2009
Statutory dynamic provision	Agreement No. 004-2013
	Agreement No. 007-2000
Country risk reserve	Agreement No. 001-2001

(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* (No. 7092), which require that the Bank file its income tax returns for the 12 months ending December 31 of each year. Any resulting tax is recognized in profit or loss for the year and credited to a liability account in the consolidated statement of financial position.

i. Current tax

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Deferred tax*

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

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

iii. *Tax benefits FOCREDE*

Regarding the tax benefits applied to the Development Credit Fund (FOCREDE), the Development Financing Fund (FOFIDE) and the National Development Trust (FINADE) as part of the resources of the Development Banking System managed by the Bank, as established in Article 15 of the *Development Banking System Act* (Law No. 8634), 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(x) Financial statements of the different departments

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

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

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

(y) Recognition of income and expenses

i. Interest income and interest expense

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

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

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

The Bank took extraordinary measures to help its customers and give flexibility with payments to borrowers affected by the economic crisis caused by the pandemic. The solutions offered included COVID-19 restructuring, which allowed the customer to suspend the payment for a specific number of installments, which were then restructured as follows:

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- a) The principal of the unpaid installments is prorated among the remaining installments of the payment plan, to be paid within the remaining term of the operation.
- b) Interest corresponding to the restructured installments shall be payable at the end of the term of the operation, or it can be settled previously by the customer if they wish to do so.

These measures were adopted considering the cycle of economic activities, some of them exceed six months, which entailed the accrual of interest for more than 180 days.

Regarding accrual on the loan portfolio over 180 days, official letter CNS-1698/08 indicates that an allowance must be created with cutoff date as of October 2021. Of the balance booked in accrued interest receivable on the loan portfolio, the Bank must record ¢34,868 million, corresponding to accrued interest over 180 days. Allowances in the amount of ¢1,908 million have already been booked.

As of September 30, 2023, allowances booked amount to ¢10,365 million. According to the plan for accrued interest receivable, the total allowance to be booked is ¢24,680 million. This plan must be carried out during the next 36 months, with bi-annual cutoffs. The balance must be updated at the beginning of each semester, considering the payments made, refinancing, default and other effects.

<u>Semester</u>	<u>Minimum allowance percentage of the balance of accrued interest receivable</u>	<u>Minimum allowance required</u>
	<u>over 180 days</u>	
2023-12	42%	10,366
2024-06	56%	13,821
2024-12	70%	17,276
2025-06	85%	20,978
2025-12	100%	24,680

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Income from foreign currency exchange and arbitrage*

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

iv. *Operating lease expenses*

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

(z) Statutory allocations

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

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 178 of the *Law on Cooperative Associations* (Law No. 4179).

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* (Law No. 8488), 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(aa) Development Financing Fund (FOFIDE)

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

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

(bb) Development Credit Fund (FOCREDE)

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

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

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

- a. Pursuant to Article 6 of Law No. 8634, the Managing Banks may offer first-tier banking services to the beneficiaries of the Development Banking System.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b. Pursuant to Article 36 of Law No. 8634, the managing State-owned banks may channel FOCREDE funds, as second-tier banks, through placements to associations, cooperatives, micro financial entities, foundations, non-governmental organizations, producer organizations, or other formal entities, except for private banks, provided that they perform loan operations through programs that meet the objectives and the beneficiaries established in this law and are authorized by the Governing Board.
- c. 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 14 of Law No. 8634 and amendments 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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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 Bank is performing a comprehensive assessment of the credit granting process and the procedures performed in offices, shared service centers, commercial areas and corporate center.
- The work plan for loan follow-up includes an evaluation of main borrowers (higher balances in the loan portfolio), which involves continuous monitoring and visits to regional offices.

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

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

	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
<i>Loan portfolio</i>				
Principal	¢ 4,943,748,942,638	4,647,103,521,325	349,638,253,110	355,136,415,374
Accounts and accrued interest receivable	97,656,025,911	107,657,139,670	-	-
Gross carrying amount	5,041,404,968,549	4,754,760,660,995	349,638,253,110	355,136,415,374
Incremental costs directly related to loans	6,153,560,008	5,565,119,085	-	-
Deferred income from loan portfolio	(46,460,289,872)	(40,341,717,781)	-	-
Allowance for loan losses (accounting records)	(122,926,798,260)	(146,675,071,373)	(1,253,059,841)	(1,224,954,519)
Net carrying amount	¢ <u>4,878,171,440,425</u>	<u>4,573,308,990,926</u>	<u>348,385,193,269</u>	<u>353,911,460,855</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Loan portfolio				
Total balances:				
0	¢ 45,667,599,345	36,463,582,790	-	-
A1	3,958,027,956,991	3,645,560,349,355	329,767,882,801	323,987,228,733
A2	15,995,409,743	67,193,052,652	392,761,601	1,375,729,195
B1	531,778,008,379	481,992,402,405	3,250,241,701	25,551,021,820
B2	6,478,785,312	12,217,658,586	27,375,492	78,976,653
C1	167,701,992,509	137,421,686,154	2,005,809,238	1,742,261,998
C2	7,326,567,070	18,073,383,803	18,451,216	120,003,870
D	183,605,671,602	176,504,391,806	13,496,550,417	1,045,310,004
E	124,822,977,598	179,334,153,444	679,180,644	1,235,883,101
	<u>5,041,404,968,549</u>	<u>4,754,760,660,995</u>	<u>349,638,253,110</u>	<u>355,136,415,374</u>
Structural allowance (subledger – database)	<u>(92,531,438,004)</u>	<u>(98,357,551,322)</u>	<u>(79,282,839)</u>	<u>(114,551,664)</u>
Net carrying amount	¢ <u>4,948,873,530,545</u>	<u>4,656,403,109,673</u>	<u>349,558,970,271</u>	<u>355,021,863,710</u>
Individually assessed loans with allowance:				
0	¢ 45,667,599,345	36,035,173,189	-	-
A1	3,958,027,956,991	3,643,166,585,169	18,411,545,353	21,105,510,238
A2	15,995,409,743	67,193,052,652	40,000,000	28,530,000
B1	531,778,008,379	481,910,364,652	692,657,719	16,556,804,807
B2	6,478,785,312	12,217,658,586	-	9,692,856
C1	167,701,992,509	137,421,686,154	25,943,551	11,990,800
C2	7,326,567,070	18,073,383,803	-	1,555,624
D	183,605,671,602	176,504,391,806	12,885,046,127	26,185,368
E	124,822,977,598	179,334,153,444	-	43,679,022
	<u>5,041,404,968,549</u>	<u>4,751,856,449,455</u>	<u>32,055,192,750</u>	<u>37,783,948,715</u>
Structural allowance (subledger – database)	<u>(92,531,438,004)</u>	<u>(98,357,551,322)</u>	<u>(79,282,839)</u>	<u>(114,551,664)</u>
Net carrying amount	¢ <u>4,948,873,530,545</u>	<u>4,653,498,898,133</u>	<u>31,975,909,911</u>	<u>37,669,397,051</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Current loan portfolio, without allowance:				
0	-	428,409,601	-	-
A1	-	2,393,764,186	311,356,337,449	302,881,718,495
A2	-	-	352,761,601	1,347,199,195
B1	-	82,037,753	2,557,583,982	8,994,217,013
B2	-	-	27,375,492	69,283,797
C1	-	-	1,979,865,687	1,730,271,198
C2	-	-	18,451,216	118,448,246
D	-	-	611,504,289	1,019,124,636
E	-	-	679,180,644	1,192,204,079
Carrying amount	-	2,904,211,540	317,583,060,360	317,352,466,659
Gross carrying amount	¢ 5,041,404,968,549	4,754,760,660,995	349,638,253,110	355,136,415,374
Allowance for loan losses (database)	(92,531,438,004)	(98,472,102,986)	(79,282,839)	-
Excess of allowance over structural allowance	(30,395,360,256)	(48,202,968,387)	(1,173,777,002)	(1,224,954,519)
Incremental costs directly related to loans	6,153,560,008	5,565,119,085	-	-
Deferred income from loan portfolio	(46,460,289,872)	(40,341,717,781)	-	-
Net carrying amount	¢ 4,878,171,440,425	4,573,308,990,926	348,385,193,269	353,911,460,855
Restructured loans	¢ 60,047,392,284	25,651,555,556	-	-

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 *Regulations on credit risk management and evaluation for the Development Banking System*:

		September 2023	
		Loans to customers	
		Gross	Net
0	¢	45,667,599,345	44,490,058,556
A1		3,958,027,956,991	3,905,822,204,529
A2		15,995,409,743	15,794,105,911
B1		531,778,008,379	524,534,403,291
B2		6,478,785,312	6,365,880,970
C1		167,701,992,509	162,643,471,556
C2		7,326,567,070	6,715,962,252
D		183,605,671,602	165,420,875,912
E		124,822,977,598	86,691,207,312
	¢	<u>5,041,404,968,549</u>	<u>4,918,478,170,289</u>

		September 2022	
		Loans to customers	
		Gross	Net
0	¢	36,463,582,790	35,612,308,145
A1		3,645,560,349,355	3,624,736,122,680
A2		67,193,052,652	66,841,624,302
B1		481,992,402,405	477,257,076,772
B2		12,217,658,586	11,998,290,552
C1		137,421,686,154	132,351,740,193
C2		18,073,383,803	16,514,108,628
D		176,504,391,806	159,718,999,026
E		179,334,153,444	131,258,287,711
	¢	<u>4,754,760,660,995</u>	<u>4,656,288,558,009</u>

As shown above, as of September 30, 2023, the gross portfolio amounts to ¢5,041 billion. Of that amount, 90.41% is classified in risk ratings "A+B" and 9.59% in risk ratings "C+D+E" (September 2022: ¢4,755 billion, of which 89.25% is classified in risk ratings "A+B" and 10.75% in risk ratings "C+D+E").

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Through Letter SGF-0506 dated March 11, 2022, SUGEF communicated the new regulation CONASSIF Directive 14-21 on the calculation of the allowance for loan losses applicable during the transition to the new methodology effective as of January 1, 2024.

During the transition period, the Conglomerate must submit quarterly impact reports with the following cut-off dates:

<u>Year</u>	<u>Cut-off dates</u>
2022	September 30, 2022
	December 31, 2022
	March 31, 2023
2023	June 30, 2023
	September 30, 2023
	December 31, 2023

In conformity with Transition Provision II, CONASSIF Directive 14-21 regarding the quarterly reports, the reports with cut-off dates as of September and December 2022, and March, June and September 2023 have been submitted to SUGEF.

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

In Article 9 of Minutes of Meeting No. 1697-2021, held on November 1, 2021, CONASSIF unanimously established the following final decision: (i) to dismiss Transition Provisions XV), XVI), XVIII) and XIX) starting January 1, 2022; (ii) to extend the application of Transition Provisions XX and XXII until December 31, 2022; and (iii) to add Transition Provision XXIII effective January 1, 2022. These measures are effective from January 1, 2022. This decision was published in Official Gazette No. 225 dated November 22, 2021.

Transition Provision XXIII of SUGEF Directive 1-05 Regulations for Borrower Classification

Starting January 1, 2022, the provisions established in Number 2, Subparagraph i) Special loan operation of Article 3 of SUGEF Directive 1-05 will be fully applied, regarding the determinations as “special” of the loan operation modified more than once within 24 months through restructuring, extension, refinancing or a combination thereof. For such purposes, that application will follow these considerations:

- a. The number of modifications will begin to be calculated from zero starting January 1, 2022.
- b. The term of 24 months will begin from January 1, 2022, for all borrowers of the entity’ s loan portfolio as of December 31, 2021.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- c. Subsequently, for the aforementioned borrowers and for new borrowers from January 1, 2022, the term of 24 months will continue to be calculated in conformity with the provisions of the regulations, according to the specific situation of each borrower.

Transition Provision XXIV of SUGEF Directive 1-05 *Regulations for Borrower Classification*

For purposes of Article 11bis, as of January 1, 2023, the term “borrower that generates cash flows in foreign currency” will be equivalent to “borrower without exposure to currency risk”, and the term “borrower that does not generate cash flows in currency” will be equivalent to “borrower exposed to foreign currency risk.” The foregoing does not affect the continuity of the application of the additional general allowance of 1.5% during 2023, for either a “borrower that does not generate cash flows in foreign currency” or a “borrower exposed to currency risk.”

Transition Provision XXV of SUGEF Directive 1-05 *Regulations for Borrower Classification*

Starting January 1, 2023, and until December 31, 2023, for purposes of number 2, subparagraph i) of Article 3 of said Regulations, a borrower with at least one operation that has been modified twice within a period of 24 months will be classified as risk rating B2. Furthermore, a borrower with at least one operation modified more than twice within a period of 24 months will be classified in risk rating C1. The number of modifications will include those applied as of January 1, 2022. The borrower maintains the risk rating prior to obtaining the special operation referred in paragraph one of this Transition Provision, if and when it is B2 or C1, respectively, or a higher risk rating. Nevertheless, if the borrower’s conditions justify reclassification to higher risk ratings, the entity must make the corresponding reclassification.

Transition Provision XXVI of SUGEF Directive 1-05 *Regulations for Borrower Classification*

Starting January 1, 2023, and until December 31, 2023, the following text must be applied, which substitutes Article 18. Special loan operation: “Article 18. Special loan operation. Borrowers with at least one special loan operation must immediately be classified by the entity as follows: if before having a special loan operation the borrower was classified in risk ratings A1 to C1 or was not classified according to these Regulations, said borrower must be classified in risk rating C1, or risk ratings B2 or C1 when applicable, as per Transition Provision XXV of these Regulations, or a higher credit risk rating for at least 180 days.

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Notes to the Consolidated Financial Statements

When a supervised entity acquired a loan portfolio from entities within its own business group, it may request authorization from SUGEF to improve the risk rating of the borrower before the established term of 90 days, for which SUGEF must confirm the proposed category in order to issue the authorization.

If, before having a special loan operation, the borrower was classified in risk ratings C2 or D, the borrower must be classified in risk rating C2 or D, respectively, or a higher risk rating, for at least 180 days. If, before having a special loan operation, the borrower was classified in risk rating E, that risk rating must be maintained for at least 180 days. When applying the previous paragraphs, it is worth noting that: a) the period during which the borrower's risk rating cannot be improved will begin after the grace period ends, if there is one, for the principal granted in the special loan operation; b) the 90-day or 180-day periods indicated will only be valid when the special loan operation stipulates monthly payments or payments with shorter frequency (bi-weekly, weekly, etc.).

If the special loan operation stipulates payments with a frequency greater than one month, the period during which the borrower's risk rating cannot be improved will be extended for a period equivalent to six consecutive payments of the principal according to the agreed frequency, and c) a borrower with at least one special loan operation as per subparagraphs i3 and i4 of Article 3 of these Regulations or any other loan operation which due to its characteristics can be used to prevent arrears must remain in the risk rating while at least one of those special loan operations is maintained.

Once the period during which the borrower's risk rating cannot be improved has elapsed, as per the previous paragraphs, the entity can reclassify the borrower according to its assessment based on these Regulations. When SUGEF, based on an evaluation of the facts and circumstances, determines the existence of a special loan operation, it must communicate to the entity the reasons why it considers the loan operation to be a special operation, and it must grant a maximum term of five business days for the entity to submit allegations and evidence it considers pertinent.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Transition provision XXVIII of SUGEF Directive 1-05 *Regulations for borrower classification*

Starting January 1, 2023, and until December 31, 2023, the specific allowances released due to the modifications approved in this SUGEF directive cannot be reversed through profit or loss; rather, such amounts may only be assigned to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E pursuant to Articles 10 and 11 of SUGEF Directive 1-05. From July 1, 2023, allowances released due to the modification set forth in Resolution SGF-2660-2022 dated December 23, 2022, cannot be reversed through profit or loss for the period.

With cutoff as of August 31, 2023, the allowances booked in excess of the minimum allowance amount, solely related to the modification to Resolution SGF-2660-2022 dated December 23, 2022, must be reclassified in full to the analytical account 139.02.M.04 “Componente Genérico para Cartera de Créditos – Transitorio” (Generic component for the loan portfolio –Transition Provision).

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Borrower classification

Pursuant to Article 4 of 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.

The loan portfolio by borrower classification is as follows:

Borrower classification	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Group 1	¢ 2,646,384,444,602	2,511,678,413,575	37,667,263,754	46,076,290,695
Group 2	2,395,020,523,947	2,243,082,247,420	311,970,989,356	309,060,124,679
	<u>¢ 5,041,404,968,549</u>	<u>4,754,760,660,995</u>	<u>349,638,253,110</u>	<u>355,136,415,374</u>

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 Article 10 of SUGEF Directive 1-05, borrowers in Group 1 are classified based on arrears, historical payment behavior and creditworthiness; whereas, based on CONASSIF communication CNS-1775/07, 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Group 1

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

- Group 2

<u>Risk rating</u>	<u>Arrears</u>	<u>Historical payment behavior</u>
A1	30 days or less	Level 1
A2	30 days or less	Level 2
B1	60 days or less	Level 1
B2	60 days or less	Level 2
C1	90 days or less	Level 1
C2	90 days or less	Level 2
US dollars	120 days or less	Level 1 or Level 2

Through that set forth in SUGEF Directive 15-16 *Regulations on credit risk management and evaluation for the Development Banking System* to calculate specific allowances, risk ratings 2 to 6 for the microfinance, development and second-tier banking portfolios are subject to specific allowances according to the percentages in the following table:

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Analysis of creditworthiness

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Analysis of historical payment behavior

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

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

Structural allowance for loan losses

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

<u>Arrears</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>	<u>Creditworthiness (Group 1 borrowers)</u>	<u>Creditworthiness (Group 2 borrowers)</u>
Current	5%	0.50%	Level 1	Level 1
30 days or less	10%	0.50%	Level 1	Level 1
60 days or less	25%	0.50%	Level 1 or Level 2	Level 1 or Level 2
			Level 1 or Level 2 or	Level 1 or Level 2 or
90 days or less	50%	0.50%	Level 3 or Level 4	Level 3 or Level 4
More than 90 days			Level 1 or Level 2 or	Level 1 or Level 2 or
	100%	0.50%	Level 3 or Level 4	Level 3 or Level 4

If a borrower was rated E before subscribing a special loan operation, the borrower should remain in such a rating during at least 180 days. During such a period, the allowance percentage will be 100%, and the aforementioned exception should not be applied. The sum of specific allowances for each loan operation constitutes the minimum specific allowance, as amended in minutes of meeting No. 1775-2022.

Decreased amounts may only be reassigned to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

In accordance with Article 11 bis of SUGEF Directive 1-05, at each month-end, the Conglomerate 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2023		
		Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢	111,308,218,196	(92,531,438,004)	18,776,780,192
Allowance for stand-by credits		1,253,059,841	(79,282,839)	1,173,777,002
CNS 1698 allowance plan		10,365,520,223	(10,365,520,223)	-
		<u>122,926,798,260</u>	<u>(102,976,241,066)</u>	<u>19,950,557,194</u>
Counter-cyclical allowance (per SUGEF Directive 19-16)		7,091,197,083	(7,091,197,083)	-
	¢	<u>130,017,995,343</u>	<u>(110,067,438,149)</u>	<u>19,950,557,194</u>
		September 2022		
		Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢	140,395,777,210	(98,357,551,322)	42,038,225,888
Allowance for stand-by credits		1,224,954,519	(114,551,664)	1,110,402,855
CNS 1698 allowance plan		5,054,000,000	(5,054,000,000)	-
		<u>146,674,731,729</u>	<u>(103,526,102,986)</u>	<u>43,148,628,743</u>
Counter-cyclical allowance (per SUGEF Directive 19-16)		339,644	(339,644)	-
	¢	<u>146,675,071,373</u>	<u>(103,526,442,630)</u>	<u>43,148,628,743</u>

Counter-cyclical allowance

According to communication CNS 1811-04 1810-07 dated August 25, 2023, Transition Provision V indicates that:

Starting January 1, 2023, and until December 31, 2023, each month entities must book the expense for the counter-cyclical component for a minimum of 7% of the positive result of the difference between the balance of the accounts 500 “Income” minus 400 “Expenses” plus 450 “Taxes and statutory allocations for each month.” This will be done until the balance of the analytical account “139.02.M.02 (Counter-cyclical component)” reaches the amount corresponding to Pccit, as per Article 4 of these regulations.

With cutoff as of August 31, 2023, the entity must reclassify the balance of the account 139.02.M.04 (Generic Component for Loan Portfolio – Transition Provision) to account 139.02.M.02 (Counter-cyclical component). This will be for a total of account 139.02.M.04 or until necessary to complete the Pccit amount.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Entities that complete the Pccit amount shall continue to register the counter-cyclical allowance as established in Article 5 of these regulations.

The balance remaining in account 139.02.M.04 after performing the previous movements must be solely used to cover future counter-cyclical requirements.

The amount of the portfolio impaired due to high risk is as follows:

Year		Principal	Allowance	Number of operations	Number of customers
March 2022	¢	176,840,758,479	51,255,222,310	9,018	6,083
June 2022	¢	199,354,902,788	61,468,095,782	11,299	7,756
September 2022	¢	179,228,674,021	56,045,652,130	13,223	7,900
December 2022	¢	183,914,460,612	56,820,301,219	12,991	7,568
March 2023	¢	156,619,307,087	46,494,899,340	10,195	6,114
June 2023	¢	179,992,374,256	47,755,022,148	12,498	7,211
September 2023	¢	180,733,037,486	47,660,010,940	14,005	7,882

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:

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, the balance of the allowance for impairment of assets held for sale and per legal requirement amounts to ₡62,182,995,909 (December and September 2022: ₡60,686,913,169 and ₡62,136,922,241, respectively).

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

Sector	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Trade	₡ 390,798,016,899	366,315,940,009	-	-
Services	1,227,669,901,260	1,074,480,318,396	43,725,730,392	48,391,829,248
Financial services	97,255,645,716	93,414,839,611	-	-
Mining	371,966,916	416,875,019	-	-
Manufacturing and quarrying	157,274,112,142	169,969,744,972	-	-
Construction	61,704,083,601	67,814,006,105	-	-
Agriculture and forestry	114,268,090,802	110,448,791,356	-	-
Livestock, hunting and fishing	77,082,095,147	75,537,527,560	-	-
Electricity, water, sanitation and other related sectors	417,499,437,675	433,306,833,965	-	-
Transportation and telecommunications	40,450,246,041	44,438,840,097	-	-
Housing	1,510,748,735,544	1,477,596,690,513	-	-
Personal or consumer	667,503,093,448	555,193,151,976	305,797,289,370	306,619,752,778
Tourism	278,779,543,358	285,827,101,416	115,233,348	124,833,348
	₡ <u>5,041,404,968,549</u>	<u>4,754,760,660,995</u>	<u>349,638,253,110</u>	<u>355,136,415,374</u>

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

	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Central America	₡ <u>5,041,404,968,549</u>	<u>4,754,760,660,995</u>	<u>349,638,253,110</u>	<u>355,136,415,374</u>

The loan portfolio by type of guarantee is as follows:

Type of guarantee	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
Back-to-back	₡ 52,953,144,261	45,791,764,932	158,512,095	39,309,151
Mortgage bond	44,563,590,630	56,911,107	-	-
Assignment of loans	519,977,646,576	370,257,273,670	-	-
Mortgage	1,714,431,071,009	1,745,076,709,511	5,423,500	90,834,827
Surety	839,528,080,604	856,430,678,314	23,655,302	15,032,039,063
Trust	588,905,026,516	508,507,031,480	12,885,046,127	-
Securities	29,489,254,552	28,298,757,055	8,115,466	-
Chattel mortgage	305,290,595,109	242,049,992,327	5,243,833	-
Other	946,266,559,292	958,291,542,599	336,552,256,787	339,974,232,333
	₡ <u>5,041,404,968,549</u>	<u>4,754,760,660,995</u>	<u>349,638,253,110</u>	<u>355,136,415,374</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: 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, 2023, 60.43% of the loan portfolio is secured by collateral guarantees (September 2022: 71.16%).

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

Loan portfolio concentration	Direct loans		Stand-by credits	
	September 2023	September 2022	September 2023	September 2022
¢1 to ¢3,000,000	¢ 153,524,446,037	139,236,498,455	122,243,989,683	95,488,638,604
¢3,000,001 to ¢15,000,000	607,771,096,708	550,693,339,969	183,684,988,765	205,998,863,753
¢15,000,001 to ¢30,000,000	521,787,743,927	469,276,521,137	5,176,824,094	9,355,365,788
¢30,000,001 to ¢50,000,000	496,036,471,522	493,302,391,588	2,046,743,012	3,297,826,822
¢50,000,001 to ¢75,000,000	493,476,617,320	478,630,768,302	2,212,739,802	2,619,811,134
¢75,000,001 to ¢100,000,000	293,589,722,955	270,886,947,853	2,178,912,738	1,015,861,569
¢100,000,001 to ¢200,000,000	269,096,412,613	251,707,358,500	3,166,973,495	2,963,493,241
More than ¢200,000,000	2,206,122,457,467	2,101,026,835,191	28,927,081,521	34,396,554,463
	¢ 5,041,404,968,549	4,754,760,660,995	349,638,253,110	355,136,415,374

As of September 30, 2023, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢707,432,544,219, equivalent to 14.02% of the loan portfolio (September 2022: ¢675,224,600,000, equivalent to 14.20% of the loan portfolio).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Bank's loan portfolio is comprised operations in various currencies, i.e. the Costa Rican colon, the US dollar and DU. Therefore, the consolidated expected loss (EL) analysis is applied by currency. Also, the methodological change of the VaR is made, aligned to the EL methodology according to the segments defined in the Bottom-Up Stress Test (BUST), which is calculated in a consolidated manner and by segment, according to the BUST classification.

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

The year-on-year decrease observed in the EL of the entire loan portfolio (from 2.66% in September 2022 to 2.60% in September 2023) is mainly explained by a reduction in the arrears indicators. Arrears more than 90 days decreased from 2.55% in September 2022 to 2.12% in September 2023.

Compared to the results from September 2022, the behavior of EL for economic activities showed a mixed result (increases and decreases), but with a predominant downward trend. The activities with the largest decreases are Trade, Services, and Transport, exceeding 278 basis points (bps), while the activity with the largest increase is Construction, with a variation of 617 bps.

For the result of the VaR of the loan portfolio, a year-on-year increase from 7.46% to 7.92% was recorded, which is an expected behavior given the variations in the balance of the portfolio according to the type of segment.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The Conglomerate 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 Conglomerate 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 CONASSIF Directive 6-18 *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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ECL due to impairment in the issuer's credit is not calculated for those instruments that directly affect equity.

An allowance for ECL is booked for the managed portfolio, as follows:

Portfolio	September 2023	September 2022
Investments in financial instruments at FVOCI	¢ 53,213,952	72,221,206

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

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Brokerage Firm may acquire the following instruments:

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

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

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

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

For the September 2023 close, the accounting records showed investments in colones, investments in instruments issued by local issuers in US dollars (CR) and investments issued by foreign issuers in US dollars (\$USA). The Brokerage Firm holds no investments in DU. By currency, the largest portion continues to be concentrated in the portfolio in colones with 88.33% and in US dollars with 11.67%.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica and BNCR correspond to 88.31% and 0.02%, respectively, representing a total of 88.33% of the consolidated portfolio in colones, while G issues and BNSFI correspond to 11.53% and 0.14%, respectively, representing a total of 11.67% of the consolidated portfolio in US dollars.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

An allowance for ECL was booked for the managed portfolio, as follows:

Portfolio		September 2023	September 2022
Investments measured at FVOCI	¢	23,191,967	34,187,676
Amortized cost		396,385,261	248,987,311

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.

Credit risk management

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.

An allowance for ECL was booked for the managed portfolio, as follows:

		September 2023	September 2022
Investments at amortized cost	¢	6,903,671	-
Investments measured at FVOCI	¢	54,536,274	116,317,523

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

Credit risk management

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

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

An allowance for ECL was booked for the managed portfolio, as follows:

<u>Portfolio</u>	<u>September 2023</u>	<u>September 2022</u>
Amortized cost	¢ 19,256,127	13,703,133

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments in financial instruments

With the entrance into effect of CONASSIF 06-18 *Regulation on Financial Information* (RFI), Article 18 requires regulated entities to calculate estimated credit losses for their investment portfolios. This calculation has been performed monthly since January 2020 for the Conglomerate's investments.

The Conglomerate has a classification of its instruments aligned with the three business models defined and updated as of the third quarter of 2023. The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at FVOCI. For instruments measured at FVTPL, ECL 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 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 investment 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 FVTPL.

The classification of instruments by model is as follows:

		September 2023		
Month		Model 1	Model 2	Total estimated
		Amortized cost	Comprehensive income	losses
January	¢	2,841,757,301	2,760,888,014	5,602,645,315
February	¢	2,600,821,134	2,725,373,887	5,326,195,021
March	¢	2,583,218,359	2,961,243,082	5,544,461,441
April	¢	2,553,631,109	3,687,351,413	6,240,982,522
May	¢	2,314,094,884	4,328,699,921	6,642,794,805
June	¢	2,394,295,085	3,899,757,092	6,294,052,177
July	¢	2,615,773,114	3,995,474,713	6,611,247,827
August	¢	2,560,393,715	3,551,187,195	6,111,580,910
September	¢	2,984,079,155	3,630,489,940	6,614,569,095

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2022		
		Model 1	Model 2	Total estimated
Date		Amortized cost	Comprehensive income	losses
January	¢	7,573,424,497	3,435,687,361	6,464,063,397
February	¢	7,499,112,619	3,386,947,129	6,347,020,433
March	¢	6,435,002,890	3,338,514,680	6,242,391,720
April	¢	6,347,031,538	3,257,783,936	6,082,794,667
May	¢	6,589,172,399	3,162,922,451	6,053,423,858
June	¢	6,447,019,259	3,057,752,055	6,000,064,916
July	¢	6,381,200,586	3,019,586,043	5,994,681,671
August	¢	6,803,983,018	3,071,222,670	5,955,742,738
September	¢	2,801,636,178	2,678,213,729	5,431,987,162

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.

		September 2023	
	12-month PD range	Stage 1	Total
Investments at amortized cost Allowance	0.38% to 2.66%	₱ 1,001,191,508,377	1,001,191,508,377
		(2,984,079,155)	(2,984,079,155)
		₱ 998,207,429,222	998,207,429,222
		December 2022	
	12-month PD range	Stage 1	Total
Investments at amortized cost Allowance	0.34% to 3.21%	₱ 876,680,708,850	876,680,708,850
		(2,930,192,805)	(2,930,192,805)
		₱ 873,750,516,045	873,750,516,045

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	12-month PD range	September 2022	
		Stage 1	Total
Investments at amortized cost	0.34% to		
Allowance	3.21%	¢ 960,872,601,986	960,872,601,986
		(2,801,636,178)	(2,801,636,178)
		¢ 958,070,965,808	958,070,965,808

The following table sets out information about the credit quality of financial assets measured at FVOCI. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

	12-month PD range	September 2023	
		Stage 1	Total
Investments at FVOCI	0.24% to		
Allowance	3.37%	¢ 629,360,773,197	629,360,773,197
		(3,630,489,940)	(3,630,489,940)
		¢ 625,730,283,257	625,730,283,257

	12-month PD range	December 2022	
		Stage 1	Total
Investments at FVOCI	0.24% to		
Allowance	3.37%	¢ 552,870,403,336	552,870,403,336
		(2,670,857,408)	(2,670,857,408)
		¢ 550,199,545,928	550,199,545,928

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	12-month PD range	September 2022	
		Stage 1	Total
Investments at FVOCI	0.24% to		
Allowance	3.58%	¢ 610,404,855,317	610,404,855,317
		(2,678,213,729)	(2,678,213,729)
		¢ 607,726,641,588	607,726,641,588

The following table sets out information about the credit quality of financial assets measured at FVTPL. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

September 2023		
	Stage 1	Total
Investments in financial instruments	¢ 4,051,736,772	4,051,736,772
	¢ 4,051,736,772	4,051,736,772

December 2022		
	Stage 1	Total
Investments in financial instruments	¢ 4,057,391,271	4,057,391,271
	¢ 4,057,391,271	4,057,391,271

September 2022		
	Stage 1	Total
Investments in financial instruments	¢ 4,141,955,619	4,141,955,619
	¢ 4,141,955,619	4,141,955,619

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Expected losses by currency are as follows:

		September 2023	
		Absolute	Relative
Colones	¢	5,920,963,836	52.50%
US dollars		868,269,399	7.74%
		¢ 6,789,233,235	60.19%
		December 2022	
		Absolute	Relative
Colones	¢	4,061,719,794	34.57%
US dollars		1,694,091,701	5.84%
		¢ 5,755,811,495	40.35%
		September 2022	
		Absolute	Relative
Colones	¢	5,159,877,794	38.64%
US dollars		542,698,519	1.82%
		¢ 5,702,576,313	40.40%

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Investments by geographic location are as follows:

Country	September 2023		
	Principal	Interest	Total
Costa Rica	1,144,156,339,846	15,559,361,050	1,159,715,700,895
Panama	27,855,096,000	570,269,093	28,425,365,093
Caribbean	427,372,559	1,481,554	428,854,113
United States	401,261,794,932	1,494,562,773	402,756,357,705
Canada	3,215,593,432	32,240,093	3,247,833,525
Venezuela	8,227,713,104	37,819,877	8,265,532,981
Europe	36,142,379,656	180,538,417	36,322,918,073
Asia	3,046,392,459	22,368,179	3,068,760,638
Australia	344,020,507	734,179	344,754,686
New Zealand	296,310,743	693,005	297,003,748
Rest of South America	16,270,500,000	97,207,197	16,367,707,197
¢	<u>1,641,243,513,238</u>	<u>17,997,275,417</u>	<u>1,659,240,788,654</u>

Country	December 2022		
	Principal	Interest	Total
Costa Rica	851,717,866,549	17,554,976,205	869,272,842,753
Panama	10,113,432,000	169,533,959	10,282,965,959
Caribbean	188,840,567	2,697,752	191,538,319
United States	508,316,591,311	1,525,856,558	509,842,447,869
Canada	12,971,475,573	94,213,096	13,065,688,669
Venezuela	10,324,064,442	84,626,002	10,408,690,445
Europe	47,382,340,124	336,376,065	47,718,716,189
Asia	3,737,321,430	22,268,019	3,759,589,449
Australia	5,762,794,833	74,193,173	5,836,988,005
New Zealand	324,306,726	2,499,932	326,806,658
¢	<u>1,450,839,033,555</u>	<u>19,867,240,761</u>	<u>1,470,706,274,315</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Country	September 2022		
	Principal	Interest	Total
Costa Rica	968,842,984,891	11,310,232,423	980,153,217,315
Panama	10,629,696,000	73,607,064	10,703,303,064
Caribbean	193,873,349	959,052	194,832,400
United States	529,387,156,627	1,619,274,860	531,006,431,487
Canada	16,664,848,665	67,796,081	16,732,644,745
Venezuela	10,828,992,120	100,196,495	10,929,188,615
Europe	51,249,303,333	253,770,699	51,503,074,031
Asia	3,970,073,298	10,503,335	3,980,576,634
Australia	6,616,019,508	41,894,100	6,657,913,608
New Zealand	339,523,879	808,470	340,332,349
¢	<u>1,598,722,471,670</u>	<u>13,479,042,579</u>	<u>1,612,201,514,248</u>

Key inputs for the measurement of ECL under IFRS 9

The inputs considered are based on the different methodologies and approaches that were used in modelling the calculation of ECL under the guidelines of accounting standard IFRS 9.

The ECL model allows the Bank to calculate ECL based on three key inputs: Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Definition of ratings

Investment instruments are given a rating based on the different reports and/or sources used by international and local rating agencies in their assessment. Consequently, it is necessary to determine the equivalence of the different ratings granted by international and local rating agencies to securities in local or foreign currency.

For the Conglomerate, two types of equivalence of information are used depending on the source chosen:

- Equivalence of international ratings:

It consists of determining the equivalence of the ratings granted by international rating agencies to securities in local and foreign currencies and to determine the equivalence of these rating reports.

The following table shows the equivalence of ratings of the different international risk rating agencies where, for instance, the equivalent for Moody's Baa1 would be Fitch's BBB+, according to SUGEF Directive 1-05.

S&P	Moody's	Fitch
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC(+/-)	Caa(123)	CCC(+/-)
CC	Ca(123)	CC
C	C	C

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Equivalence of local ratings (Ceiling test)

In addition to the aforementioned equivalence of ratings, a Ceiling Test process is implemented. It assigns a rating, which is accepted as internationally valid, to those ratings issued by local or regional risk rating agencies, such as SCR and PCR, so that each risk rating does not exceed the country risk. The following table shows the equivalence of the national ratings used by the Conglomerate in accordance with the methodology to determine the equivalents of national risk rating scales of SUGEF Directive 1-05.

Costa Rica	International scale
AAA	B
AA+	B-
AA	B-
AA-	B-
A+	B-
A	CCC+
A-	CCC+
BBB+	CCC+
BBB	CCC
BBB-	CCC
BB+	CCC
BB	CCC-
BB-	CCC-
B+	CC
B	CC
B-	CC
C	C

Amounts arising from ECL

- Significant increase in credit risk

IFRS 9 establishes that ECL must be calculated based on the classification of operations into three stages of credit risk:

- Stage 1 - Assets that are not credit-impaired
- Stage 2 - Assets with a significant increase in credit risk but that are not credit-impaired
- Stage 3 - Assets that are credit-impaired

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Criteria for significant increase in credit risk (Stage 2)

To measure a significant increase in risk, IFRS 9 indicates the following:

At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk of a default occurring over the expected life of the financial instrument instead of the change in the amount of ECL's.

To make that assessment, an entity shall compare the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. (Reference: paragraph 5.5.9 of IFRS 9 *Financial Instruments*.)

The methods used to determine whether the credit risk of a financial instrument has increased significantly since initial recognition should consider the characteristics of the financial instrument (or group of financial instruments) and previous default patterns for comparable financial instruments. Despite the requirement in paragraph 5.5.9 for financial instruments for which default patterns are not concentrated at a specific point during the expected life of the financial instrument, changes in the risk of a default within the following 12 months may be a reasonable approximation of the changes in the lifetime ECL.

Criteria for objective impairment (Stage 3)

For a financial instrument to be considered impaired, any of the following characteristics must be met:

- Significant arrears in the payment of interest or principal, or both. The usual criteria for loans are 90 days past due or more. The standard expressly indicates 90 days past due for any financial instrument unless it is refuted. For investments it tends to be stricter in practice, with the default at 30 days past due or less.
- Contracts subject to judicial or preliminary proceedings.
- The investment or issuer has a Default or Partial Default rating.
- The issuer files for bankruptcy.

Additionally, the objective criteria for impairment can be extended when an increase in risk is determined such that, above that investment grade, the instruments become credit impaired.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Therefore, a PD of 1 is assigned to loans categorized in this stage, since the loan is already considered in default and the PD is 100%.

The Conglomerate determines the increase in risk by analyzing any changes from the original rating at the time of purchase to the rating at the date of calculation (threshold methodology).

This analysis is performed in a differentiated manner:

- For securities with an initial rating that is within the Conglomerate's investment policy or 3 investment grades below the minimum rating (BBB-), a fall of more than 3 notches in the rating is considered a significant increase in risk. According to the current policy from August 2022, these correspond to ratings above BB-.
- For securities with an initial rating above CCC+ that do not belong in the item above, falls in the rating below B- are considered a significant increase in risk.
- For ratings below B-, a significant increase in risk is defined by falls exceeding 1 notch.
- Initial impairment ratings below CCC- are considered instruments in Stage 3, observing an increase in risk by two grades above the minimum investment policy.

Probability of Default (PD)

Under IFRS 9, the new mechanism to measure impairment is based on the portion of probable losses that must be provisioned. One of the parameters that allows determining that condition is the probability that a financial instrument or a counterparty will default over a time horizon, in such a way that there are two types of PD:

- 12-month PD: Probability that a borrower will fail to comply with its obligations during the following 12 months.
- Lifetime PD: Lifetime probability of default is assessed over the remaining term of the operation.

Segmentation

IFRS 9 allows the Conglomerate to measure the ECL on exposures collectively if they have similar risk characteristics. Moreover, IFRS 9 is flexible regarding the entities that should make this segmentation.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Consequently, the following criteria are used to define the PD of assets in the investment portfolio:

- external (third parties) or internal credit ratings or scores
- type of instrument
- geographic location
- issuer's currency.

The following table shows the granularity scheme for the segmentation of the PD. For securities from sovereign issuers, PD is assigned is based on the sovereign risk rating if the instrument is denominated in local or foreign currency. For corporate securities, the region associated with the issuer's country as well as the type of investment (financial and non-financial) is added to the instrument's rating.

Segment	Category	
Sovereign	Foreign currency	
	Local currency	
	North America (NA)	Corporate Financial Corporate Non-financial
	Europe and East Asia (EMEA)	Corporate Financial Corporate Non-financial
	Asia Pacific and Oceania (APAC)	Corporate Financial Corporate Non-financial
	Latin America (LATAM)	Corporate Financial Corporate Non-Financial
Corporate		

- Expected credit losses

The reconciliation of the opening balance and closing balance of ECL by type of instrument is as follows:

		Stage 1	Total
<i>Investments at amortized cost</i>			
Balance as of January 1, 2023	¢	2,930,192,806	2,930,192,806
Update of the allowance		9,228,959	9,228,959
Allowance for new investments		684,814,720	684,814,720
Decrease in allowance		(640,157,331)	(640,157,331)
Balance as of September 30, 2023	¢	2,984,079,154	2,984,079,154

		Stage 1	Total
<i>Investments at amortized cost</i>			
Balance as of January 1, 2022	¢	2,801,506,973	2,801,506,973
Update of the allowance		14,978,992	14,978,992
Allowance for new investments		384,830,802	384,830,802
Decrease in allowance		(399,680,588)	(399,680,588)
Balance as of September 30, 2022	¢	2,801,636,179	2,801,636,179

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Stage 1	Total
<u>Investments at FVOCI</u>		
Balance as of January 1, 2023	¢ 2,670,857,408	2,670,857,408
Update of the allowance	(18,613,786)	(18,613,786)
Allowance for new investments	1,922,709,685	1,922,709,685
Decrease in allowance	(944,463,367)	(944,463,367)
Balance as of September 30, 2023	¢ 3,630,489,940	3,630,489,940
	Stage 1	Total
<u>Investments at FVOCI</u>		
Balance as of January 1, 2022	¢ 3,735,001,754	3,735,001,754
Update of the allowance	(3,385,046)	(3,385,046)
Allowance for new investments	212,528,850	212,528,850
Decrease in allowance	(1,265,931,829)	(1,265,931,829)
Balance as of September 30, 2022	¢ 2,678,213,729	2,678,213,729

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.

Year on year, the LCR indicator in colones closed at 217% as of September 2023, which is 26% higher than the last year. This is related to an increase of 21% in the stock of liquid assets (HQLA) (¢336,600 million, mainly through investments in the integrated liquidity market (MIL) and the recovery of the minimum legal deposit), which had a greater impact than the increase in net cash outflows of 11% (¢78,350 million, especially wholesale commitments). The indicator is considerably above the appetite level of 130%, equivalent to ¢631,900 million.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, the LCR indicator in US dollars closed at 276%, showing a significant increase of 24% with regard to the previous year (2022: 252%). This was due to a fall of net outflows of 24% (-US\$122 million, mainly due to less wholesale and retail commitments). This had an impact greater than the decrease of 13% of HQLA (-US\$185 million, mainly in cash and due from banks abroad Level 1A and due to a lower recovery of the minimum legal deposit). The LCR indicator is considerably above the appetite level of 130%, equivalent to US\$754 million.

The LCR percentage indicator by currency is as follows:

<u>Indicator</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>	<u>Level</u>
LCR - colones	217%	192%	26%	Appetite
LCR - US dollars	276%	252%	24%	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, 2023, 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	¢	-	188,150,917,684	-	-	-	-	-	-	188,150,917,684
Minimum legal deposit in BCCR		-	419,631,921,746	19,365,518,595	25,801,704,410	28,108,153,530	66,022,425,379	51,835,426,887	35,657,558,917	646,422,709,464
Investments		-	2,969,318,089	176,904,236,637	1,843,884,713	2,506,628,294	49,556,796,680	86,799,304,995	777,131,549,272	1,097,711,718,680
Loan portfolio		191,315,346,240	-	54,431,580,886	37,005,729,124	60,358,324,864	109,344,046,497	143,609,407,817	3,070,741,559,104	3,666,805,994,532
Recovery of assets	¢	191,315,346,240	610,752,157,519	250,701,336,118	64,651,318,247	90,973,106,688	224,923,268,556	282,244,139,699	3,883,530,667,293	5,599,091,340,360
Obligations with the public	¢	-	3,051,302,869,344	165,810,901,777	189,655,981,890	178,316,660,845	331,001,488,931	306,455,411,468	244,670,358,791	4,467,213,673,046
Obligations with BCCR		-	-	-	-	-	-	-	150,220,610,244	150,220,610,244
Obligations with financial entities		-	49,056,287,855	107,688,895,045	636,226,831	15,194,840,570	38,182,724,952	32,157,187,875	38,972,169,072	281,888,332,200
Charges payable		-	24,600,506,548	9,288,204,251	5,295,464,255	2,350,380,389	5,005,345,905	3,308,682,996	3,913,913,709	53,762,498,053
Maturity of liabilities	¢	-	3,124,959,663,747	282,788,001,073	195,587,672,976	195,861,881,804	374,189,559,788	341,921,282,339	437,777,051,816	4,953,085,113,543
Difference	¢	191,315,346,240	(2,514,207,506,228)	(32,086,664,955)	(130,936,354,729)	(104,888,775,116)	(149,266,291,232)	(59,677,142,640)	3,445,753,615,477	646,006,226,817

As of September 30, 2022, the terms of the Bank and its Subsidiaries' assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	185,195,360,309	-	-	-	-	-	-	185,195,360,309
Minimum legal deposit in BCCR		-	337,716,687,412	20,844,032,620	14,020,409,355	22,378,072,336	51,752,670,758	52,551,962,492	26,352,487,572	525,616,322,545
Investments		-	1,392,628,653	97,670,513,045	327,701,120	19,919,301,027	114,609,652,163	188,646,981,480	472,286,443,408	894,853,220,896
Loan portfolio		171,759,757,666	-	75,942,781,677	57,554,615,218	40,582,196,654	104,485,092,497	135,732,347,132	2,845,607,115,388	3,431,663,906,232
Recovery of assets	¢	171,759,757,666	524,304,676,374	194,457,327,342	71,902,725,693	82,879,570,017	270,847,415,418	376,931,291,104	3,344,246,046,368	5,037,328,809,982
Obligations with the public	¢	-	2,796,924,335,901	92,088,948,605	152,212,607,590	144,005,877,135	307,844,403,810	318,953,224,678	193,768,130,859	4,005,797,528,578
Obligations with BCCR		-	-	-	-	-	-	-	164,696,408,078	164,696,408,078
Obligations with financial entities		-	41,304,569,427	99,033,643,746	1,904,888,425	1,215,178,143	35,888,064,876	19,099,599,645	41,025,123,236	239,471,067,498
Charges payable		-	9,486,092,320	3,791,824,118	3,412,118,631	1,183,719,662	3,099,299,586	1,597,440,281	3,272,525,176	25,843,019,774
Maturity of liabilities	¢	-	2,847,714,997,648	194,914,416,469	157,529,614,646	146,404,774,940	346,831,768,272	339,650,264,604	402,762,187,349	4,435,808,023,928
Difference	¢	171,759,757,666	(2,323,410,321,274)	(457,089,127)	(85,626,888,953)	(63,525,204,923)	(75,984,352,854)	37,281,026,500	2,941,483,859,019	601,520,786,054

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, 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	¢	-	290,744,928,284	-	-	-	-	-	290,930,337,645
Minimum legal deposit in BCCR		-	244,469,273,133	8,144,279,892	7,777,573,705	11,925,237,431	20,299,097,651	27,529,737,955	336,237,246,895
Investments		-	91,933,510	126,625,756,015	40,896,632,838	35,231,035,974	167,054,929,816	74,296,324,635	567,068,393,438
Loan portfolio		64,841,389,233	-	17,163,254,235	19,064,895,725	19,116,895,347	58,831,001,639	82,453,029,569	1,334,292,244,153
Recovery of assets	¢	64,841,389,233	535,306,134,927	151,933,290,142	67,739,102,268	66,273,168,752	246,185,029,106	184,279,092,159	2,528,528,222,131
Obligations with the public	¢	-	1,464,411,036,499	54,542,187,176	58,337,737,201	57,673,323,030	133,673,464,195	176,898,496,752	2,055,150,690,905
Obligations with financial entities		-	10,648,703,651	84,618,161,680	123,776,457,103	28,591,932,710	32,541,000	7,666,715,316	346,036,197,165
Charges payable		-	4,582,377,771	939,459,693	3,834,274,254	2,146,823,559	1,478,717,606	1,578,524,405	15,115,924,320
Maturity of liabilities		-	1,479,642,117,921	140,099,808,549	185,948,468,558	88,412,079,299	135,184,722,801	186,143,736,473	2,416,302,812,390
Difference	¢	64,841,389,233	(944,335,982,994)	11,833,481,593	(118,209,366,290)	(22,138,910,547)	111,000,306,305	(1,864,644,314)	112,225,409,741

As of September 30, 2022, the terms of the Bank's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	421,779,584,367	-	-	-	-	-	421,933,109,234
Minimum legal deposit in BCCR		-	231,733,802,851	9,208,661,956	7,372,614,673	11,159,417,907	24,473,371,502	25,921,783,931	332,754,920,318
Investments		-	4,141,955,619	34,167,699,035	9,671,971,602	8,643,548,231	42,531,918,630	219,161,332,733	717,284,428,599
Loan portfolio		83,603,751,083	-	33,936,422,211	21,512,037,430	18,260,002,497	56,749,184,222	93,830,452,985	1,288,320,156,068
Recovery of assets	¢	83,603,751,083	657,655,342,837	77,312,783,202	38,556,623,705	38,062,968,635	123,754,474,354	338,913,569,649	2,760,292,614,219
Obligations with the public	¢	-	1,597,398,360,918	50,769,813,571	76,616,481,712	72,382,312,185	139,853,180,040	162,159,495,215	2,222,836,637,580
Obligations with financial entities		-	10,176,365,039	132,177,414,836	6,327,200	-	3,445,871,223	584,843,856	396,881,256,181
Charges payable		-	2,629,924,410	626,683,598	3,915,554,838	2,250,112,936	1,129,971,851	877,838,018	12,206,231,237
Maturity of liabilities		-	1,610,204,650,367	183,573,912,005	80,538,363,750	74,632,425,121	144,429,023,114	163,622,177,089	2,631,924,124,998
Difference	¢	83,603,751,083	(952,549,307,530)	(106,261,128,803)	(41,981,740,045)	(36,569,456,486)	(20,674,548,760)	175,291,392,560	128,368,489,221

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

It is worth noting that liquidity risk management is closely related to credit risk management, meaning that instruments or securities present in the financial market are included to facilitate their negotiation.

Management of liquidity risk

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

It is worth noting that liquidity risk management is closely related to credit risk management, meaning that securities listed in the financial market are included in order to facilitate their negotiation.

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

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

Management of liquidity risk

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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

Liquidity risk is the risk that the Insurance 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 Insurance Brokerage Firm's operations and investments.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

c) Market risk

i. Banco Nacional de Costa Rica

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

<u>Indicator</u>	<u>Limit</u>	<u>Level</u>
Consolidated VaR	3.20%	Appetite
Currency risk	3.50%	Appetite
Interest rate risk – colones	2%	Appetite
Interest rate risk – foreign currency	2%	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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The portfolios by currency are as follows:

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>
Colones	975,765,431,253	811,767,950,000	163,997,481,253
US dollars – local issuers	106,847,870	117,183,805	(10,335,935)
US dollars – foreign issuers	927,592,000	1,001,808,000	(74,216,000)

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

<u>Currency</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>
Colones	1.33	0.78	0.55
US dollars – local issuers	1.13	1.38	(0.25)
US dollars – foreign issuers	0.57	1.02	(0.45)

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

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

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

Management of market risks

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Market risk exposure – trading portfolio:

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

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

	September 2023	September 2022
VaR indicator (99%)	0.87%	1.87%

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

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

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

(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 30-day holding period, based on the RiMer approach.

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

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

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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.

Starting November 2022, a total VaR of prices and rates is calculated, which includes the VaR of fixed-rate instruments and the VaR of variable-rate instruments, using methodologies approved for consolidation and for the total VaR estimation that considers the total financial instruments in the investment portfolio.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Market risk management

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

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

- Market risk of investments

- i. Banco Nacional de Costa Rica

The Bank's consolidated VaR regarding the market value of investments increased during the last year. During the last 12 months until September 2023, this indicator continued to present a behavior with an upward trend, with an average VAR value of 0.57%, due to a higher volatility observed in the prices of the instruments in the investment portfolio and a higher exposure in instruments of the Government of Costa Rica.

<u>Type of risk</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>
Consolidated VaR	0.73%	0.71%	0.03%

The results of the individual VaR by currency regarding the market value at the September 2023 close and the variation with respect to the same period of the previous year are as follows:

<u>Currency</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>
Colones	0.98%	1.04%	(0.06%)
US dollars – local issuers	0.49%	0.56%	(0.07%)
US dollars – foreign issuers	0.66%	0.67%	(0.01%)

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Market Risk Division monitors this risk regularly through the indicators established by SUGEF Directive 24-22 *Regulations for Qualifying Regulated Entities* and reports monthly on its performance to the Bank's Corporate Risk Committee. Interest rate risk is as follows:

<u>Type of risk</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk - In colones	0.38%	0.27%	0.11%	Normal
Interest rate risk - In foreign currency	0.02%	0.71%	(0.69%)	Normal

For the Bank, both indicators closed considerably below SUGEF's regulatory limits.

The interest rate risk indicator in colones increased mainly due to the increase in the average duration of equity in colones and a higher expected variation of the base deposit rate. In US dollars, the decrease is mainly basically due to a lower expected variation in the 3-month LIBOR rate.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, the interest rate terms for the Conglomerate'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	¢	2,969,318,089	175,341,437,096	4,002,144,104	49,754,677,162	88,325,499,696	238,188,052,546	537,782,205,778	1,096,363,334,471
Loan portfolio		-	3,131,326,033,517	125,980,458,970	120,162,868,219	17,066,294,173	17,833,468,213	111,916,103,541	3,524,285,226,633
Recovery of rate-sensitive assets LC (A)	¢	2,969,318,089	3,306,667,470,613	129,982,603,074	169,917,545,381	105,391,793,869	256,021,520,759	649,698,309,319	4,620,648,561,104
Obligations with the public	¢	-	251,198,530,852	382,297,749,580	374,189,559,788	340,223,043,827	148,833,481,583	108,732,883,585	1,605,475,249,215
Obligations with BCCR		-	41,452,000,000	-	-	-	153,039,477,456	125,644,412	194,617,121,868
Obligations with financial entities LC		-	122,116,685	-	-	-	-	28,931,731,920	29,053,848,605
Maturity of rate-sensitive liabilities LC (B)	¢	-	292,772,647,537	382,297,749,580	374,189,559,788	340,223,043,827	301,872,959,039	137,790,259,917	1,829,146,219,688
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,969,318,089	3,013,894,823,076	(252,315,146,506)	(204,272,014,407)	(234,831,249,958)	(45,851,438,280)	511,908,049,402	2,791,502,341,416
<i>Foreign currency (FC)</i>									
Investments	¢	-	56,157,701,379	146,655,213,415	167,054,929,813	74,304,680,214	54,335,691,495	68,283,668,397	566,791,884,713
Loan portfolio		-	1,148,874,640,871	42,787,538,972	25,024,921,067	2,751,231,759	22,986,679,288	65,539,928,003	1,307,964,939,960
Recovery of rate-sensitive assets FC (C)	¢	-	1,205,032,342,250	189,442,752,387	192,079,850,880	77,055,911,973	77,322,370,783	133,823,596,400	1,874,756,824,673
Obligations with the public	¢	-	142,474,139,068	211,469,150,796	135,172,576,715	185,472,887,650	46,720,210,999	111,570,309,553	832,879,274,781
Obligations with BCCR		-	7,845,635,100	-	-	-	-	-	7,845,635,100
Obligations with entities		-	-	56,540,146,436	1,459,461,144	-	-	43,388,000,000	101,387,607,580
Maturity of rate-sensitive liabilities FC (D)	¢	-	150,319,774,168	268,009,297,232	136,632,037,859	185,472,887,650	46,720,210,999	154,958,309,553	942,112,517,461
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	1,054,712,568,082	(78,566,544,845)	55,447,813,021	(108,416,975,677)	30,602,159,784	(21,134,713,153)	932,644,307,212
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,969,318,089	4,511,699,812,863	319,425,355,461	361,997,396,261	182,447,705,842	333,343,891,542	783,521,905,719	6,495,405,385,777
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	443,092,421,705	650,307,046,812	510,821,597,647	525,695,931,477	348,593,170,038	292,748,569,470	2,771,258,737,149
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,969,318,089	4,068,607,391,158	(330,881,691,351)	(148,824,201,386)	(343,248,225,635)	(15,249,278,496)	490,773,336,249	3,724,146,648,628

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2022, the interest rate terms for the Conglomerate'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	¢	1,392,628,653	97,641,453,483	20,200,308,209	114,547,090,211	145,115,186,153	268,869,014,003	246,542,398,105	894,308,078,817
Loan portfolio		-	2,928,288,840,584	117,816,245,723	112,378,123,751	15,977,066,387	16,701,630,966	99,242,268,827	3,290,404,176,238
Recovery of rate-sensitive assets LC (A)	¢	1,392,628,653	3,025,930,294,067	138,016,553,932	226,925,213,962	161,092,252,540	285,570,644,969	345,784,666,932	4,184,712,255,055
Obligations with the public	¢	-	173,263,429,459	302,628,216,673	346,831,768,272	336,022,289,524	93,293,412,753	115,137,717,022	1,367,176,833,703
Obligations with BCCR		-	22,212,000,000	1,550,000,000	-	-	-	166,625,500,558	190,387,500,558
Obligations with financial entities LC		-	126,670,179	-	-	-	-	31,937,156,874	32,063,827,053
Maturity of rate-sensitive liabilities LC (B)	¢	-	195,602,099,638	304,178,216,673	346,831,768,272	336,022,289,524	93,293,412,753	313,700,374,454	1,589,628,161,314
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	1,392,628,653	2,830,328,194,429	(166,161,662,741)	(119,906,554,310)	(174,930,036,984)	192,277,232,216	32,084,292,478	2,595,084,093,741
<i>Foreign currency (FC)</i>									
Investments	¢	-	16,001,398,239	40,600,763,295	42,503,068,357	215,473,823,881	309,696,005,973	92,743,650,112	717,018,709,857
Loan portfolio		-	1,093,692,529,021	40,732,391,546	23,822,937,888	2,619,086,116	21,882,595,812	61,695,488,556	1,244,445,028,939
Recovery of rate-sensitive assets FC (C)	¢	-	1,109,693,927,260	81,333,154,841	66,326,006,245	218,092,909,997	331,578,601,785	154,439,138,668	1,961,463,738,796
Obligations with the public	¢	-	170,298,910,884	152,658,371,026	144,386,512,891	160,085,705,904	171,654,272,458	89,321,498,426	888,405,271,589
Obligations with BCCR		-	13,786,968,800	-	-	-	-	-	13,786,968,800
Obligations with entities		-	-	2,238,710,872	42,510,223	-	68,337,429,776	47,454,000,000	118,072,650,871
Maturity of rate-sensitive liabilities FC (D)	¢	-	184,085,879,684	154,897,081,898	144,429,023,114	160,085,705,904	239,991,702,234	136,775,498,426	1,020,264,891,260
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	925,608,047,576	(73,563,927,057)	(78,103,016,869)	58,007,204,093	91,586,899,551	17,663,640,242	941,198,847,536
Recovery of rate-sensitive assets 1/ (A + C)	¢	1,392,628,653	4,135,624,221,327	219,349,708,773	293,251,220,207	379,185,162,537	617,149,246,754	500,223,805,600	6,146,175,993,851
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	379,687,979,322	459,075,298,571	491,260,791,386	496,107,995,428	333,285,114,987	450,475,872,880	2,609,893,052,574
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	1,392,628,653	3,755,936,242,005	(239,725,589,798)	(198,009,571,179)	(116,922,832,891)	283,864,131,767	49,747,932,720	3536,282,941,277

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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 arising from fluctuations in interest rates when interest rates for investments are mismatched and when the Pension Fund Manager does not have the necessary flexibility to make a timely adjustment.

The total VaR of price and interest rates of the Pension Fund Manager's own funds has an increasing trend, with a maximum of 5.3% and a minimum of 1.18% for an average of 2.6%, equivalent to ¢385.13 million. As of September 30, 2023, the indicator closed at 1.98% (September 2022: 1.39%), showing an increase related to a greater volatility observed in the prices of the instruments that comprise the investment portfolio.

i. BN Corredora de Seguros, S.A.

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

The Insurance Brokerage Firm has investments in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones, S.A. which are financial assets measured at FVTPL and subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores Puesto de Bolsa, S.A., in its role as manager of the portfolio of BN Corredora de Seguros, S.A. 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 24-22, 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.

On July 31, 2019, the Corporate Risk Committee approved to lengthen the foreign currency position, which has been ratified by the General Board of Directors on August 20, 2019, and is monitored daily by the Market Risk Division.

i. Banco Nacional de Costa Rica

The Conglomerate 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 Conglomerate calculates the SUGEF currency risk indicator on a monthly basis, which as of September 2023 locates at the appetite level and has always been in the appetite threshold before this period. The indicator has decreased significantly, which corresponds to a performance that is expected due to the drop of the exchange rate during the second quarter of 2023.

<u>Type of risk</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Variation</u>	<u>Level</u>
Currency risk	2.63%	1.30%	1.33%	Normal

In addition to the regulatory currency risk indicator, the Bank's Market Risk Division calculates another currency risk indicator for management and monitoring purposes. A VaR of exchange rate is created based on the exposure level and foreign exchange rate stress scenarios.

The VaR of exchange rate measures the losses that a financial entity could have (using a certain probability and a 1-month time horizon) due to a mismatch of its assets and liabilities in foreign currency, in the event of exchange rate fluctuations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Inputs used to measure the VaR of exchange rate include the exchange rate at a specific time and time horizon, the net position in foreign currency (difference between assets and liabilities in foreign currency) and the percentage variation in the exchange rate at different time periods and the base capital.

The VaR of exchange rate assumes that the exchange rate risk exists only if there is a mismatch between assets and liabilities in foreign currency. The variation in the exchange rate corresponds to the 5th and 95th percentiles of the distribution of projected variations in exchange rates taken from an exchange rate model.

With the calibrated model and through Montecarlo simulations, exchange rate forecasts are created for different periods. The 5th and 95th percentiles of the distribution of those forecasts are used as the percentage variation of the exchange rate in order to calculate the indicator of the VaR of exchange rate. The result is as follows:

<u>Internal currency risk</u>	<u>September 2023</u>	<u>September 2022</u>	<u>Level</u>
5 th percentile	0.37%	0.06%	Normal
95 th percentile	0.51%	0.16%	Normal

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate's assets and liabilities denominated in foreign currency are as follows:

		US dollars	
		September 2023	September 2022
<u>Assets:</u>			
Cash and due from banks	US\$	1,100,543,308	1,141,494,365
Investments in financial instruments		1,045,576,461	1,133,652,214
Loan portfolio		2,401,416,083	1,961,253,918
Accounts and accrued interest receivable		796,935	907,271
Investments in other companies		126,165,478	120,687,303
Property, furniture and equipment		359,848	485,905
Other assets		2,406,021	1,274,734
	US\$	<u>4,677,264,134</u>	<u>4,359,755,710</u>
<u>Liabilities:</u>			
Obligations with the public	US\$	3,752,877,014	3,470,819,811
Obligations with entities		645,687,828	634,191,270
Subordinated obligations		110,263,685	113,008,551
Accounts payable and provisions		16,558,625	19,208,583
Other liabilities		4,804,658	2,290,908
	US\$	<u>4,530,191,810</u>	<u>4,239,519,123</u>
Excess assets over liabilities denominated in US dollars	US\$	<u>147,072,324</u>	<u>120,236,587</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		September 2023	September 2022
<u>Assets:</u>			
Cash and due from banks	€	52,774,688	52,448,008
	€	52,774,688	52,448,008
<u>Liabilities:</u>			
Obligations with the public	€	50,040,355	51,765,271
Obligations with entities		1,200,409	1,209,143
Accounts payable and provisions		19,170	3,242
Other liabilities		157,062	101,514
	€	51,416,996	53,079,170
Excess (deficit) of assets over liabilities denominated in euro	€	1,357,692	(631,162)
		DU	
		September 2023	September 2022
<u>Assets:</u>			
Loan portfolio		(168,769)	126,871
	DU	(168,769)	126,871
<u>Liabilities:</u>			
Accounts payable and provisions	DU	18,439	34,177
	DU	18,439	34,177
Deficit (excess) of assets over liabilities denominated in DU	DU	(187,208)	92,694

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the nine months ended 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 2023	September 2022
Gain on foreign exchange differences	¢ 424,065,457,928	486,910,109,335
Loss on foreign exchange differences	(426,014,126,837)	(486,879,802,350)
Net loss (gain)	¢ (1,948,668,909)	30,306,985

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

	September 2023	September 2022
Gain on net valuation of other assets (Note 42)	¢ 573,623,813	403,451,802
Loss on net valuation of other liabilities	(244,101,741)	(241,151,408)
Net gain	¢ 329,522,072	162,300,394

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

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%.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

As of September 30, 2023, the Pension Fund Manager's exposure to currency risk, considering its net assets in US dollars, was 11.19% (¢1,591.31 million) of total net assets, representing a decrease in comparison to September 30, 2022, where it closed at 12.13% (¢1,396.19 million).

Sensitivity analysis

In managing interest rate and currency risks, the Pension Fund Manager seeks to reduce the impact of short-term fluctuations on its profit. However, over the long-term permanent changes in foreign currency and interest rates may affect profit.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Pension Fund Manager performed a sensitivity analysis to determine the effect on profit of interest rate variations of rate-sensitive assets and liabilities.

Management performs a base analysis to determine the impact on financial assets and liabilities of an increase or decrease of 1 and 2 basis points in the interest rates of rate-sensitive assets and liabilities, as follows:

Impact on profit or loss as of September 30, 2023			
1%	2%	(1)%	(2)%
2,500,000	5,000,000	(2,500,000)	(5,000,000)

Impact on profit or loss as of September 30, 2022			
1%	2%	(1)%	(2)%
62,500,000	125,000,000	(62,500,000)	(125,000,000)

As of September 30, 2023, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢79.57 million. A decrease of 5% would generate the opposite effect.

As of September 30, 2022, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢69.81 million. A decrease of 5% would generate the opposite effect.

v. BN Corredora de Seguros, S.A.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

e) Operational risk

i. Banco Nacional de Costa Rica

Operational risk is the risk of potential loss resulting from failures or deficiencies in processes, personnel, information systems, internal and external events. This definition includes litigation risk but excludes strategic or business risks and reputational risks.

The policy adopted stipulates that all of the Conglomerate's employees are responsible for managing operational risk. 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 institutional values, code of conduct and ethics are adopted across all levels of the organization.

That policy is implemented through a management framework that includes:

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

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

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:

(Continued)

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 Conglomerate 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.

In addition, there is another model to calculate litigation provisions based on historical probability, by lawyer and by subject matter, which allows addressing potential 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 Conglomerate'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 Inversión, 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).
- Monitoring: Periodic assessments are made of the institutional risk map to identify changes that could increase or decrease the probability that risk events will occur in order to adapt the Investment Fund Manager's strategies to address areas in which risk exposures are considered unacceptable.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Management of this risk is the responsibility of all business units within the Brokerage Firm and the following aspects are considered which allow the Brokerage Firm to manage and control the exposure to these risks:

- identification of risk factors
- mapping of the Brokerage Firm's operational risks
- operational risk database of information on risk events, including type, description and number of events, business unit in which the event originated, date and monetary loss incurred
- compliance with corporate governance practices and established conduct guidelines
- compliance with regulatory and other legal or contractual requirements applicable to the Brokerage Firm
- 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) Investments measured at FVTPL are booked at fair value. The fair value is based on quoted market prices or broker quoted prices. The fair values of held-to-maturity investments are estimated using discounted cash flow techniques.

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

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

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

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

Additionally, the General Risk Division of the Bank's Financial Conglomerate furnishes necessary operational risk results. Compliance with the standards established by the Bank at the financial conglomerate level is supported by a program of periodic reviews undertaken by General and Internal Audit, the results of such reviews are discussed with the personnel of the Pension Fund Manager.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Capital risk: This is the risk that the Pension Fund Manager will not have sufficient capital to meet the minimum regulatory requirements in all jurisdictions where regulated activities are performed, so as to support its credit rating and its strategic and growth options.

The Pension Fund Manager is regulated by the Pensions Superintendency (SUPEN), which establishes the capital requirements.

Capital risk management

The General Risk Division is responsible for guaranteeing the efficient capital risk management of the Pension Fund Manager. The specific levels of authority and responsibility regarding capital risk management have been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1), Total Capital Level 1) and the debt-to-equity ratio, which is calculated according to the relevant regulatory requirements.

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 guarantee of compliance 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2023, the results of the VaR by legal risk for the Pension Fund Manager correspond to an estimate of the provision for pending litigation in the amount of ¢34,473,917, which covers the lawsuits against the Pension Fund Manager, out of four pending lawsuits (three of which have an amount).

v. BN Corredora de Seguros, S.A.

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 Insurance Brokerage Firm operates and for all of its main activities. It manifests as failures, errors, business interruptions or inappropriate employee behavior and may cause financial loss, penalties from regulatory authorities or reputational damage.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to 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 business continuity plans to restore key operations and internal and external support to ensure services are not interrupted
- continuous personnel training.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Capital risk:

This is the risk that the Insurance Brokerage Firm will not have sufficient capital to meet the minimum regulatory requirements in all jurisdictions where regulated activities are performed, so as to support its credit rating and its strategic and growth options. CONASSIF establishes the capital adequacy requirements for the Insurance Brokerage Firm through specific guidelines issued by SUGESE and SUGEF, considering that the Insurance Brokerage Firm is part of the Bank's financial conglomerate.

Capital risk management

The Corporate Risk Committee is responsible for guaranteeing the efficient capital risk management of the Insurance Brokerage Firm. The specific levels of authority and responsibility regarding capital risk management have been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1), Total Capital Level 1) and the debt-to-equity ratio, which is calculated according to the relevant regulatory requirements.

Exposure to capital risk

The Insurance Brokerage Firm's regulatory capital consists of:

- Common Equity Tier 1 (CET1), which includes ordinary shares, retained earnings and reserves after the adjustments for dividends declared payable, intangible assets, and other regulatory adjustments related to items included in equity but treated differently for capital adequacy purposes. The Insurance Brokerage Firm's capital plans have the goal of maintaining sufficient capital of adequate quality to support its risk profile and the regulatory and business needs. The Insurance Brokerage Firm has met the minimum capital requirements indicated by the regulator.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Legal risk: It refers to legal contingencies that arise in the entity's operations and due to the nature of the industry in the application and interpretation of the law and the processing of customer claims.

Legal risk management covers three types of events:

- **Contract risk:** Contracts must comply with the regulations in effect and the guarantee of compliance by the parties. To ensure that these actions are executed by third parties 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 Insurance Brokerage Firm; for such purposes, a Compliance Area is in charge of reviewing in a systematic and comprehensive manner any departure from regulations.
- **Litigation risk:** The Comprehensive Risk Management Unit (Unidad de Administración Integral del Riesgo, UAIR) follows up monthly on the lawsuits in which the Insurance Brokerage Firm is involved. These are duly communicated and registered by management in the database of the Bank's Legal Department. Mathematical models are applied to calculate the amounts of expected losses and value at risk.

The Bank's General Risk Division communicates monthly the results of the VaR due to legal risks for the Insurance Brokerage Firm and indicates the estimated expected losses with respect to the only lawsuit against the Insurance Brokerage Firm, which is in first instance and is estimated in the amount of ₡3,500,000 (2022: ₡2,840,000).

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%. The CAR 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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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*.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The strengthening of the Conglomerate's capital includes defining internal appetites, focused on an adequate risk management and its risk profile. The current limits are as follows:

<u>Internal limits on capital adequacy ratio as per SUGEF Directive 3-06</u>			
<u>Indicator</u>	<u>Appetite</u>	<u>Tolerance</u>	<u>Capacity</u>
CAR	$x \geq 12\%$	$11\% \leq x \leq 12\%$	$x \leq 11\%$

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, 2023 and 2022, the Conglomerate'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 the Law on the Ordinary and Extraordinary Budget of the Republic for the Tax Year, (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 "Paid-in capital" (account No. 311) (see Note 26).

COVID 19 implications for the Conglomerate

During 2020, the COVID-19 virus largely affected all health systems globally, and measures were taken to mitigate it. These measures significantly affected various areas of production, namely in sectors such as transport, trade and tourism. In Costa Rica, as of the September 2023 close, there were 1,238,884 confirmed cases and 9,428 deaths.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Meanwhile, the conflict between Russia and the Ukraine which began in February 2022 has generated pressure to increase energy and food prices. This has caused an increase in interest rates by central banks to contain inflation, thus leading to an economic deceleration. The president of the United States signed a law that eliminates the public debt ceiling until 2025, to prevent default.

Economic outlook

A summary of the country's main indicators, as of the most recent cutoff, is provided below:

Indicator	Values
Unemployment	9.6%
Monthly index of economic activity (IMAE) year-on-year	6.3%
Surplus	Financial 2% of GDP
Trade balance (cumulative)	Primary 1.4% of GDP
Central government debt	US\$(2,843) M
	60.6% of GDP
	(0.16%) per month
CPI September	(3.28%) year-on-year

International context:

Inflation rates continue to be higher than the target rate. In the US, year-on-year inflation increased to 3.67% in August, higher than July and June (3.18% and 2.97%, respectively), but it was lower than the inflation from April 2021 to May 2023. Therefore, although it had a sharp downward trend, it increased slightly during the last months, remaining above the 2% target rate per annum. In the eurozone, year-on-year inflation was 4.3% in September, lower than the previous months (5.2% in August and 5.3% in July). The underlying component for the eurozone also decreased from 5.3% in August to 4.5% in September.

The economic outlook is uncertain. According to the IMF, the economic growth decreased from 3.5% in 2022 to 3% in 2023 and 2024 (IMF, 2023). The general global inflation level is expected to decrease from 8.7% in 2022 to 6.8% in 2023 and 5.2% in 2024 (IMF, 2023).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The World Bank and the Economic Commission for Latin America and the Caribbean (CEPAL) predict low growth for Latin America and the Caribbean in 2023. The economic recovery in the region during 2022 following the COVID-10 crisis is noteworthy, driven by the clear change in sanitary restrictions. However, regional growth is expected to decrease to 1.2% in 2023 (CEPAL, 2023) and reach 2.4% in 2024 (World Bank, 2023).

National context:

The increase during 2023 is mainly explained by construction, professional services and manufacturing activities, with a year-on-year growth of 22.66%, 12.27% and 7.92%, respectively.

The year-on-year variation in the consumer price index (CPI) was (3.28%), with a monthly CPI variation of (0.16%), while the average year-on-year variation in underlying inflation indicators was 0.47% in August. The goods and services with a greater positive effect on the monthly variation in the general index are tomatoes 87.6%, fixed telephony 26.4% and onions 18.6%, while the greater negative effect is explained by mobile telephony (4.9%), potatoes (12.2%) and airplane tickets (9.9%). Both the variation in general inflation and the average underlying inflation indicators show a downward trend after August 2022, when they reached maximum year-on-year variation rates of 12.1% and 7%, respectively (BCCR, 2023).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Actions taken by the Conglomerate

As indicated in previous reports, the Conglomerate has adopted a series of measures to offset the effects of the pandemic and measures against the sharp interest rate increases experienced during the second half of 2022.

- Credit risk

For the loan portfolio, a number of strategies were implemented, including:

- implementation of a plan to monitor repayment capacity (creditworthiness) from a quantitative point of view and with a greater qualitative focus
- development of the “Juntos al Amanecer” program to provide affected customers with working capital
- program to restructure principal and interest payments, for terms of three to nine months
- restructuring strategy by profiles
- strategy to decrease and freeze the rate for customers affected by significant increases in interest rates
- modification of scenarios for interest rate sensitivity according to market scenarios.

The following strategies continue in effect:

- ongoing monitoring of high-risk customers
 - improvements in collection strategies and plans
 - creation of an allowance “cushion” amounting to €22,813 million as of the September close.
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- Interest rate risk
 - ongoing monitoring of interest rate indicators
 - encouraging the use of the interbank rate (TRI) as reference for loans since it best reflects market conditions
 - performing stress tests on interest rates.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Liquidity risk
 - the liquidity coverage ratio for 5 and 10 days is sent weekly as part of the information requested by the Central Bank for analysis of the last-minute loan requests
 - daily monitoring of the main liquidity indicators
 - bi-weekly stress testing of liquidity indicators reported to the board of directors
 - lines of credit with foreign entities.
- Price risk
 - ongoing monitoring of concentration of instruments in the investment portfolio by currency, sector, rating and other
 - monitoring of prices and ratings of local and international securities
 - constant monitoring of the main price risk indicators, including internal VaR and SUGEF VaR, as well as stress testing to determine possible impacts on solvency ratios.
- Currency risk
 - periodic monitoring of systemic indicators to analyze the exchange rate. It is presented to the board of directors weekly.

These measures are constantly being reviewed in order to adjust them to changing market conditions and foreseen 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 2023	December 2022	September 2022
<u>Cash and due from banks:</u>				
Checking account - colones (Note 9)	Minimum legal deposit	¢ 692,161,105,181	602,974,731,866	617,269,386,106
Checking account - US dollars (Note 9)	Minimum legal deposit	318,253,515,530	338,611,316,346	342,667,674,703
Checking account - Euro (Note 9)	Minimum legal deposit	4,330,555,889	5,270,508,245	4,825,928,752
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments	13,806,317	22,409,216	91,133,933
Other cash and due from banks (Note 9)	Contingent guarantee of the Deposits Guarantee Fund (FGD)	132,013,314,126	125,997,691,316	122,884,628,876
Other cash and due from banks (Note 9)	FOGABONA	185,409,353	166,176,025	153,524,877
		¢ 1,146,957,706,396	1,073,042,833,014	1,087,892,277,247
<u>Investments in financial instruments:</u>				
Investments in financial instruments	Liquidity market operations	¢ 63,750,513,730	45,872,694,079	46,261,969,742
Securities issued by BCCR and the Government	Investments securing repurchase agreements	2,729,167,960	2,306,487,720	2,302,062,456
Sovereign bond in USD	BOFA-Swaps	1,082,155,478	1,181,869,342	1,541,162,430
Sovereign bond in USD	Nomura Bank guarantee	78,274,680,163	87,204,354,223	-
Sovereign bond in USD	BNY Mellon	55,391,110,433	-	765,774,590
Sovereign bond in USD	JP - Swaps	404,905,824	-	765,774,590
External debt bonds	Nomura Bank guarantee	-	-	91,270,062,646
External debt bonds	SINPE guarantee	-	-	210,328,222,060
Sovereign bond in USD	SINPE guarantee	62,379,698,919	219,986,936,563	-
	JPMIM- PLEDGED			
Sovereign bond in USD	ASSET	83,398,420	-	-
Sovereign bond in USD Local	SINPE guarantee	-	2,789,019,670	-
TP USD	SINPE guarantee	-	14,922,877,514	-
		¢ 264,095,630,927	374,264,239,111	353,235,028,514
Other assets				
Other assets (Note 17)	Security deposits	¢ 1,012,909,732	532,881,813	549,571,538

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, the Brokerage Firm has restricted assets in the amount of ¢63,750,513,731 (December and September 2022: (¢45,782,694,079 and ¢46,261,969,742, respectively), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

As of September 30, 2023, the Pension Fund Manager has restricted assets in the amount of ¢2,729,167,960 (December and September 2022: ¢2,306,487,720 and ¢2,302,062,456, respectively) corresponding to investments pledged to secure repurchase agreements.

(8) Balances and transactions with related parties

Balances and transactions with related parties are as follows:

	September 2023	December 2022	September 2022
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 9)	¢ 36,867,158,478	46,029,904,199	49,299,217,812
Investments in financial instruments and accrued interest receivable (2)	1,342,273,925	7,801,199,980	21,463,635,300
Investments in other companies (2)	68,375,223,459	73,265,452,967	76,310,647,057
	¢ 106,584,655,862	127,096,557,146	147,073,500,169
<u>Liabilities:</u>			
Demand obligations with entities (3)	93,430,365	44,277,901	24,250,655
Accounts due to related parties (4)	20,796,170	967,596	1,589,249
	¢ 114,226,535	45,245,497	25,839,904
<u>Income:</u>			
Gain on investments in other foreign companies	2,437,345,903	1,952,980,119	1,468,437,168
	2,437,345,903	1,952,980,119	1,468,437,168
<u>Expenses:</u>			
Operating expenses (5)	5,773,138,291	44,171,143	29,117,199
	¢ 5,773,138,291	44,171,143	29,117,199

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The aforementioned balances and transactions with related parties correspond to:

- (1) balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A., which bear interest at 2.25% per annum for both years
- (2) investments in the share capital of entities over which the Bank exercises control or significant influence
- (3) movements in transit of the subsidiaries' checking accounts with the Bank
- (4) balance of the subsidiaries' term certificates of deposit with the Bank
- (5) services of the Bank's procedures and self-issue insurance unit (Unidad de Trámites y Autoexpedibles) and custody rental system.

a) Compensation to key personnel

Compensation to key personnel is as follows:

		<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Short-term benefits	¢	1,830,954,301	2,214,747,107	1,667,667,522
Long-term benefits		238,024,059	287,917,124	216,796,778
Per diem – Board of directors		89,295,990	126,607,460	90,763,295
	¢	<u>2,158,274,350</u>	<u>2,629,271,691</u>	<u>1,975,227,595</u>

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

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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:

	September 2023	December 2022	September 2022
Cash and due from banks	¢ 1,461,741,211,689	1,470,874,684,814	1,465,499,712,405
Investments with maturities of less than two months	349,331,761,805	107,863,023,596	147,372,469,074
	¢ <u>1,811,072,973,494</u>	<u>1,578,737,708,410</u>	<u>1,612,872,181,479</u>

Cash and due from banks is as follows:

	September 2023	December 2022	September 2022
Cash on hand and in vaults	¢ 77,325,028,952	71,076,632,513	59,954,034,022
Cash in transit	41,225,129,355	49,869,760,013	59,653,516,037
Checking account in BCCR (1)	123,969,073,175	47,649,998,049	52,591,712,895
Minimum legal deposit in BCCR (2)	858,690,883,184	828,382,754,482	805,779,529,968
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	260,626,305	216,788,828	555,037,424
Checking accounts and other demand accounts in private financial entities	520,239,590	488,049,608	765,012,250
Checking accounts in foreign financial entities	181,566,002,129	291,062,460,495	300,485,177,092
Deposits and other demand accounts in foreign financial entities	539,343,314	4,802,609	2,496,820,786
Checking accounts and demand deposits in related parties (Note 8)	36,867,158,478	46,029,904,199	49,299,217,812
Overnight deposits in foreign financial entities	2,417,373,815	2,460,374,162	3,514,841,012
Transfers through the Interbank Electronic Payment System (SINPE)	1,657,662,010	1,476,067,946	2,854,966,672
Local notes receivable	3,790,824,766	4,614,692,783	3,660,667,584
Foreign notes receivable	699,336,820	1,356,122,570	759,891,165
Margin calls – derivative financial instruments (Note 7)	13,806,317	22,409,216	91,133,933
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	185,409,353	166,176,025	153,524,877
Contingent guarantee of the Deposits Guarantee Fund (FGD)	132,013,314,126	125,997,691,316	122,884,628,876
	¢ <u>1,461,741,211,689</u>	<u>1,470,874,684,814</u>	<u>1,465,499,712,405</u>

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each period, 2023 and 2022 (see Note 7).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(6) As of June 16, 2019, as per Note GD-5879/09, the percentage for the minimum legal deposit is 12% and 15% in colones and US dollars, respectively. The amount of that legal deposit must be deposited in cash in BCCR in conformity with the current banking legislation. The legal deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. Additionally, the board of directors of BCCR, in number 6 of Article 5 of Minutes of Meeting No. 5923-2020, held on March 20, 2020, specifies that, during the legal deposit control period, the end-of-day balance of deposits in BCCR must not be less than 90% of the minimum legal deposit required in the second half of the previous month.

As per note BCCR JD-6066/08 dated June 17, 2022, for September, the percentage for the minimum legal deposit in colones will be applied as follows:

Minimum legal deposit rates
15%

(10) Investments in financial instruments

Investments in financial instruments are as follows:

	September 2023	December 2022	September 2022
Investments at FVTPL	¢ 15,782,130,364	24,433,857,502	27,043,332,506
Investments at FVOCI	699,764,397,217	585,704,089,628	644,433,515,301
Investments at amortized cost	931,147,926,017	840,653,764,944	927,102,440,644
	¢ 1,646,694,453,598	1,450,791,712,074	1,598,579,288,451
Interest rate futures – Hedges	24,087,965	4,185,715	51,863,280
Purchase of FX futures – Other than hedges	7,814,500	-	-
Sale of FX futures – Other than hedges	56,480,636	12,227,870	27,455,190
Allowance for impairment of investments	(2,984,079,154)	(2,930,192,806)	(2,801,636,179)
Allowance for impairment of derivative instruments other than hedges	(282,403)	-	(12,364,998)
Accrued interest receivable on investments	17,997,275,417	19,867,240,763	13,479,042,574
	¢ 1,661,795,750,559	1,467,745,173,616	1,609,323,648,318

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Investments at FVTPL

Investments at FVTPL are as follows:

	September 2023	December 2022	September 2022
<u>Local issuers</u>			
Private issuers	14,830,813,707	20,476,710,400	23,005,317,739
BCCR	951,316,657	-	-
¢	<u>15,782,130,364</u>	<u>20,476,710,400</u>	<u>23,005,317,739</u>
	September 2023	December 2023	September 2022
<u>Foreign issuers</u>			
Private issuers	-	3,957,147,102	4,038,014,767
	-	3,957,147,102	4,038,014,767
¢	<u>15,782,130,364</u>	<u>24,433,857,502</u>	<u>27,043,332,506</u>

b) Investments at FVOCI

Investments at FVOCI are as follows:

	September 2023	December 2022	September 2022
<u>Local issuers</u>			
Government of Costa Rica	538,852,804,869	404,645,151,038	430,766,275,058
BCCR	59,583,584,015	13,252,898,512	29,581,877,591
Private issuers	2,729,167,960	2,306,487,720	5,805,562,456
¢	<u>601,165,556,844</u>	<u>420,204,537,270</u>	<u>466,153,715,105</u>
	September 2023	December 2022	September 2022
<u>Foreign issuers</u>			
Governments	22,305,791,081	37,513,503,153	38,133,486,608
Private issuers	36,775,584,409	51,069,926,429	81,122,291,812
Private banks	39,517,464,883	76,916,122,776	59,024,021,776
	<u>98,598,840,373</u>	<u>165,499,552,358</u>	<u>178,279,800,196</u>
¢	<u>699,764,397,217</u>	<u>585,704,089,628</u>	<u>644,433,515,301</u>

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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 2023	December 2022	September 2022
<u>Local issuers</u>			
Government of Costa Rica	¢ 315,797,374,865	320,405,325,593	307,371,342,347
BCCR	215,249,873,580	73,797,417,371	153,657,413,930
State-owned banks	24,500,000	-	-
Private banks	542,350,000	12,461,193,000	14,362,744,000
Private issuers	1,045,494,962	4,325,361,390	4,149,268,564
	¢ 532,659,593,407	410,989,297,354	479,540,768,841
<u>Foreign issuers</u>			
Governments	¢ 312,341,324,830	402,225,250,075	421,924,757,862
Private issuers	26,354,950,905	3,074,135,134	3,249,424,599
Private banks	59,792,056,875	24,365,082,380	22,387,489,342
	398,488,332,610	429,664,467,589	447,561,671,803
	¢ 931,147,926,017	840,653,764,943	927,102,440,644

As of September 30, 2023, the valuation of investments in financial instruments and restricted financial instruments gave rise to unrealized gains, net of deferred tax, in the amount of ¢13,455,685,513 (December and September 2022: unrealized gains in the amount of ¢20,572,807,920 and ¢23,404,037,421, respectively). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢3,944,300,895 (December and September 2022: unrealized gains in the amount of ¢9,511,384,618 and ¢12,342,614,120, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following table shows the rating of investments by classification:

		September 2023	December 2022	September 2022
<u>BCCR</u>				
	AA+	¢ -	-	-
	B	2,124,461,580	87,700,862,520	108,239,291,521
	B+	143,209,146,637	-	-
<u>State-owned bank</u>				
	AA+	-	-	3,503,500,000
	BB	-	-	-
	F1+	-	3,636,440,000	5,694,482,104
<u>Foreign private banks</u>				
	A	5,196,100,845	15,947,430,505	17,274,853,650
	A2	44,056,723,673	-	-
	A-	13,349,138,927	18,835,855,917	16,148,346,478
	A+	6,669,261,479	8,751,341,536	9,274,437,979
	AA-	204,668,404	5,418,432,479	5,659,093,457
	AAA	4,773,945,839	9,335,987,584	4,403,698,052
	BBB	283,776,535	3,087,954,594	6,646,762,145
	BBB-	-	4,405,018,542	-
	BBB+	8,709,811,620	8,260,688,298	8,956,267,951
	F3	-	7,705,472,000	8,098,816,000
	P1	8,189,889,311	2,925,289,004	3,042,377,125
<u>Foreign private issuers</u>				
	A	2,454,437,271	5,394,774,104	7,260,303,845
	A-	6,371,446,231	11,795,522,072	11,635,235,010
	A+	1,330,592,509	12,829,085,529	15,441,915,958
	AA	-	2,811,732,843	2,962,864,759
	AA-	3,125,577,753	1,778,668,182	1,858,476,953
	AA+	-	-	-
	AAA	-	1,198,953,167	5,050,254,873
	BB	-	-	-
	BB+	2,969,318,089	175,932,619	179,611,410
	BBB	23,092,375,547	26,751,790,905	28,886,535,259
	BBB-	6,816,114,830	7,641,206,269	11,622,096,067
	BBB+	10,894,887,260	16,130,016,034	18,204,200,783
	F3	24,782,667,999	-	-
	P1	5,400,022,417	-	-
<u>Local private issuers</u>				
	B+	-	6,789,358,293	5,872,539,341
	BB	7,840,789,555	13,544,186,077	16,983,724,602
	BB+	-	-	-
	BB-	3,889,604,036	-	-
<u>Government of Costa Rica</u>				
	B	65,857,043,800	711,768,417,359	725,848,644,482
	B2	10,835,315,656	11,159,049,529	10,899,375,240
	B+	768,557,300,524	-	-
<u>Foreign governments</u>				
	A	561,415,284	725,667,852	1,047,984,367
	AA+	310,185,953,782	399,568,790,691	417,592,520,576
	A1+	10,638,365,429	-	-
	B	-	-	3,864,766,460
	P1	-	23,688,409,085	24,594,819,308
<u>Unrated</u>				
	N/A	144,324,300,776	20,450,425,494	91,831,492,693
	¢	<u>1,646,694,453,597</u>	<u>1,450,212,759,082</u>	<u>1,598,579,288,449</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Derivative financial instruments

The Conglomerate holds the following types of derivative financial instruments:

✓ Derivatives held for risk management

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

Derivative financial instruments are as follows:

		September 2023		Purpose
Issuing bank		Notional amount	Valuation	
JP Morgan	US\$	45,833,000	US\$ (626,842)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000	(1,759,243)	
	US\$	174,464,000	US\$ (2,386,085)	
Amount in colones	¢	94,620,550,400	¢ (1,294,093,183)	
Chicago Board of Trade	US\$	20,100,000	US\$ (28,398)	Standardized futures contracts (maturing in 2023)
Amount in colones	¢	10,901,235,000	¢ (15,401,894)	
		December 2022		Purpose
Issuing bank		Notional amount	Valuation	
JP Morgan	US\$	45,833,000	US\$ (1,099,733)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000	(3,086,417)	
	US\$	174,464,000	US\$ (4,186,150)	
Amount in colones	¢	105,025,583,360	¢ (2,520,020,583)	
Chicago Board of Trade	US\$	8,900,000	US\$ (5,141)	Standardized futures contracts (maturing in 2023)
Amount in colones	¢	5,357,711,000	¢ (3,094,602)	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Issuing bank	September 2022		Purpose
	Notional amount	Valuation	
JP Morgan	US\$ 45,833,000	US\$ (675,203)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America	128,631,000	(1,894,968)	
	US\$ 174,464,000	(2,570,171)	
Amount in colones	¢ 110,386,862,080	(1,626,198,709)	
Chicago Board of Trade	US\$ 12,100,000	(158,195)	Standardized futures contracts (maturing in 2022)
Amount in colones	¢ 7,655,912,000	(100,093,526)	

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

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

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

	Rate of effectiveness		
	September 2023	December 2022	September 2022
10-year issue (maturing in 2023)	31.33%	23.67%	137.66%

The linear regression methodology is taken into account to measure the effectiveness of the derivative financial instrument, with a result of 0.99, which is above the lowest threshold of 0.8, hence the hedge is effective.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

- a 10-year or 5-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of September 30, 2023 and 2022
- only a portion of the bond cash flows is hedged (corresponding to the 5-year and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest
- the linear regression methodology is taken into account to measure the effectiveness of the derivative financial instrument.

Standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio as follows:

September 2023		
	US dollars	Colones
Notional amount	20,100,000	10,901,235,000
<u>Valuation</u>		
Positive valuation	44,414	24,087,965
Negative valuation	(72,813)	(39,489,860)
Net valuation	(28,398)	(15,401,894)

December 2022		
	US dollars	Colones
Notional amount	8,900,000	5,357,711,000
<u>Valuation</u>		
Positive valuation	6,953	4,185,715
Negative valuation	(12,094)	(7,280,317)
Net valuation	(5,141)	(3,094,602)

September 2022		
	US dollars	Colones
Notional amount	12,100,000	7,655,912,000
<u>Valuation</u>		
Positive valuation	81,969	51,863,280
Negative valuation	(240,164)	(151,956,806)
Net valuation	(158,195)	(100,093,526)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The total notional amount of swaps and their valuation is as follows:

	September 2023	
	US dollars	Colones
Notional amount	174,464,000	94,620,550,400
<u>Valuation</u>		
Negative valuation	(2,386,085)	(1,294,093,183)
Net valuation	<u>(2,386,085)</u>	<u>(1,294,093,183)</u>
	December 2022	
	US dollars	Colones
Notional amount	174,464,000	105,025,583,360
<u>Valuation</u>		
Negative valuation	(4,186,150)	(2,520,020,583)
Net valuation	<u>(4,186,150)</u>	<u>(2,520,020,583)</u>
	September 2022	
	US dollars	Colones
Notional amount	174,464,000	110,386,862,080
<u>Valuation</u>		
Negative valuation	(2,570,171)	(1,626,198,709)
Net valuation	<u>(2,570,171)</u>	<u>(1,626,198,709)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

✓ Derivatives other than hedges

Currency forwards:

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

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Total notional amounts and valuation of forwards contracts are as follows:

		<u>September 2023</u>		<u>December 2022</u>		<u>September 2022</u>	
		US dollars	Colones	US dollars	Colones	US dollars	Colones
Total notional amount	¢	8,930,000	4,843,185,500	250,000	150,497,500	525,000	332,178,000
<u>Valuation</u>							
Positive valuation		-	64,295,136	-	12,227,870	-	27,455,190
Negative valuation		-	(53,628,000)	-	-	-	-
Net valuation	¢	-	10,667,136	-	12,227,870	-	27,455,190

The total notional amounts (of swaps, standardized futures contracts and forwards contracts) and their valuation, is as follows:

		<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Total notional amount	¢	110,364,970,900	110,533,791,860	118,374,952,080
<u>Positive valuation</u>				
Standardized futures contracts		24,087,965	4,185,715	51,863,280
Forwards contracts		64,295,136	12,227,870	27,455,190
		88,383,101	16,413,585	79,318,470
<u>Negative valuation</u>				
Swaps		(1,294,093,183)	(2,520,020,583)	(1,626,198,709)
Standardized futures contracts		(39,489,859)	(7,280,317)	(151,956,807)
Forwards contracts		(53,628,000)	-	-
		(1,387,211,043)	(2,527,300,900)	(1,778,155,515)
Net valuation	¢	(1,298,827,941)	(2,510,887,315)	(1,698,837,045)

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

		<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Gains on derivative financial instruments	¢	3,603,453,741	5,985,148,376	4,851,733,427
Losses on derivative financial instruments		(3,751,026,383)	(12,979,298,545)	(11,229,290,689)
Net (losses) gains	¢	(147,572,642)	(6,994,150,169)	(6,377,557,262)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Loan portfolio

(a) Loan portfolio by sector

The loan portfolio by sector is as follows:

	September 2023	December 2022	September 2022
Trade	¢ 383,202,847,870	342,969,138,183	356,927,538,572
Services (1)	1,207,857,755,416	1,095,059,447,030	1,051,906,525,293
Financial services (1)	96,759,632,859	109,720,870,239	92,884,384,860
Mining	362,703,892	398,427,532	407,615,965
Manufacturing and quarrying	154,971,092,908	178,994,270,719	167,151,803,645
Construction	60,904,042,449	61,758,622,977	66,335,670,091
Agriculture and forestry	111,387,413,327	103,712,943,915	107,425,528,856
Livestock, hunting and fishing	74,667,890,125	73,772,137,199	73,208,482,813
Electricity, water, sanitation and other related sectors	411,395,141,664	418,966,686,202	429,259,949,526
Transportation and telecommunications	39,137,500,775	40,346,931,588	41,880,026,832
Housing	1,476,335,007,656	1,444,538,734,270	1,442,160,924,599
Personal or consumer loans	654,520,047,559	566,079,512,647	541,208,194,863
Tourism	272,247,866,138	269,338,328,270	276,346,875,410
Total direct loans	4,943,748,942,638	4,705,656,050,771	4,647,103,521,325
Incremental costs directly related to loans	6,153,560,008	5,755,898,412	5,565,119,085
(Deferred income on loan portfolio)	(46,460,289,872)	(41,927,136,381)	(40,341,717,781)
Accrued interest receivable	97,656,025,911	102,173,613,358	107,657,139,670
Allowance for loan losses	(130,017,995,343)	(139,365,727,145)	(146,675,071,373)
Loan portfolio	¢ 4,871,080,243,342	4,632,292,699,015	4,573,308,990,926

(1) As of September 30, 2023, the principal of the portfolio purchased by the Bank on December 31, 2021, amounts to ¢90,883,836,689 distributed among the services and financial services sectors.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Loans receivable bear annual interest at rates ranging as follows:

Currency	September 2023		December 2022		September 2022	
	Rates	Average (1)	Rates	Average (1)	Rates	Average (1)
Colones	0.55% to 45%	13.85%	0.55% to 45%	13.60%	0.55% to 45%	10.84%
US dollars	1.45% to 28%	11.62%	1.45% to 28%	10.96%	1.71% to 29%	8.25%
DU	3.85% to 6.91%	4.72%	3.85% to 10%	5.81%	3.85% to 10%	5.67%

(1) Simple average of the minimum and maximum values of the portfolio as of the close of the periods indicated.

(b) Loan portfolio by arrears

The loan portfolio by arrears is as follows:

	September 2023	December 2022	September 2022
Current	¢ 4,631,110,810,496	4,422,303,618,346	4,361,323,793,994
1 to 30 days	135,345,835,595	63,091,714,270	100,952,709,653
31 to 60 days	31,733,617,556	68,068,728,025	41,047,909,603
61 to 90 days	40,980,027,572	28,917,000,212	25,816,589,205
91 to 120 days	9,242,438,945	7,245,310,645	9,528,745,453
121 to 180 days	9,722,690,639	22,972,652,418	8,287,010,187
More than 180 days	85,613,521,835	93,057,026,855	100,146,763,230
	<u>4,943,748,942,638</u>	<u>4,705,656,050,771</u>	<u>4,647,103,521,325</u>
Incremental costs directly related to loans	6,153,560,008	5,755,898,412	5,565,119,085
(Deferred income on loan portfolio)	(46,460,289,872)	(41,927,136,381)	(40,341,717,781)
Accrued interest receivable	97,656,025,911	102,173,613,358	107,657,139,670
Allowance for loan losses	<u>(130,017,995,343)</u>	<u>(139,365,727,145)</u>	<u>(146,675,071,373)</u>
	<u>¢ 4,871,080,243,342</u>	<u>4,632,292,699,015</u>	<u>4,573,308,990,926</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

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

	September 2023	September 2022
Balance at beginning of period	¢ 139,365,727,145	135,831,283,295
Allowance expense for the period (Note 39)	25,535,050,322	39,627,515,925
Write-offs	(30,252,202,857)	(27,955,380,228)
Decrease in allowance	(381,416,885)	(81,428)
Foreign exchange differences	(4,249,162,382)	(828,266,191)
Balance at end of period	¢ <u>130,017,995,343</u>	<u>146,675,071,373</u>

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

(d) Allowance for impairment of stand-by credits

For the nine months ended September 30, movement in the allowance for impairment of stand-by credits is as follows:

	September 2023	September 2022
Balance at beginning of period	¢ 1,186,743,415	862,169,136
Allowance expense for the period (Note 36)	150,000,000	380,000,000
Foreign exchange differences	(83,683,574)	(17,214,617)
Balance at end of period	¢ <u>1,253,059,841</u>	<u>1,224,954,519</u>

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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:

	September 2023	December 2022	September 2022
Fees and commissions	¢ 1,959,125,613	1,800,614,015	2,437,661,382
Accounts receivable for brokerage operations	11,000,000	-	130,512,093
Accounts due from employees	33,263,210	14,608,355	21,077,941
Deferred tax (Note 21-b)	2,439,878,399	7,524,931,381	8,985,714,152
Income tax receivable (1)	271,869,681	348,610,077	260,833,814
Value-added tax	10,067,314	23,656,842	9,982,729
Sundry accounts receivable related to credit cards	429,862,389	463,439,223	314,978,315
Other expenses receivable	22,338,699	22,769,687	22,991,757
Credit fraud	362,797,508	742,752,108	742,752,108
Other accounts receivable	2,385,824,037	1,890,199,082	2,020,526,180
Misappropriation and theft	1,465,516,763	1,464,986,868	1,504,396,160
Accrued interest receivable on other sundry accounts receivable	1,464,034	725,933	1,947,371
Allowance for impairment of accounts receivable	(4,088,980,358)	(4,329,683,075)	(4,417,950,865)
	¢ <u>5,304,027,289</u>	<u>9,967,610,496</u>	<u>12,035,423,137</u>

(1) As of September 30, income tax receivable, by entity, is as follows:

	September 2023	December 2022	September 2022
Banco Nacional de Costa Rica	¢ 92,710,230	145,577,899	105,310,423
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	-	20,521	20,521
BN Sociedad Corredora de Seguros, S.A.	179,159,451	203,011,657	155,502,870
	¢ <u>271,869,681</u>	<u>348,610,077</u>	<u>260,833,814</u>

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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:

	September 2023	December 2022	September 2022
Balance at beginning of period	¢ 4,329,683,075	4,073,541,909	4,073,541,909
Allowance expense (Note 39)	920,171,553	2,064,918,116	1,682,972,742
Decrease in allowance (Note 40)	(231,228,283)	(786,561,237)	(579,691,757)
Write-offs	(884,337,541)	(977,168,662)	(741,199,299)
Foreign exchange differences	(45,308,446)	(45,047,051)	(17,672,730)
Balance at end of period	¢ <u>4,088,980,358</u>	<u>4,329,683,075</u>	<u>4,417,950,865</u>

(14) Assets held for sale

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

	September 2023	December 2022	September 2022
Assets acquired in lieu of payment	¢ 99,832,085,156	98,126,485,936	100,763,648,934
Idle property, furniture and equipment	-	55,884,628	55,884,629
Allowance for impairment of assets held for sale and per legal requirement	(62,182,995,909)	(60,686,913,169)	(62,136,922,241)
	¢ <u>37,649,089,247</u>	<u>37,495,457,395</u>	<u>38,682,611,322</u>

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

	September 2023	December 2022	September 2022
Balance at beginning of period	¢ 60,686,913,169	58,895,478,390	58,895,478,390
Allowance expense (Note 43)	4,441,736,013	7,860,283,102	5,341,439,851
Sale of assets	(55,884,627)	-	-
Decrease in allowance	(2,889,768,646)	(6,068,848,323)	(2,099,996,000)
Balance at end of period	¢ <u>62,182,995,909</u>	<u>60,686,913,169</u>	<u>62,136,922,241</u>

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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 2023</u>	<u>December 2022</u>	<u>September 2022</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. (BICSA) and Subsidiary (2)		68,425,846,767	73,316,076,275	76,361,270,365
	¢	<u>68,476,470,067</u>	<u>73,366,699,575</u>	<u>76,411,893,665</u>

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

		<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>	<u>Concept</u>
Bolsa Nacional de Valores	¢	15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Interclar Central de Valores		15,000,000	15,000,000	15,000,000	Investment to operate as custodian of electronic securities
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) as per Art. 24 of Law No. 7131		5,200,000	5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities (cooperatives)		423,000	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 for 2023 and 2022, is represented by 6,506,563 ordinary shares with a par value of US\$10.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Historical cost and depreciation

Property, furniture and equipment is as follows:

		September 2023				
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles
						Total
<u>Cost:</u>						
Historical cost at beginning of period	¢	4,281,149,678	73,195,840,170	77,142,375,450	52,779,484,355	283,116,885
Revalued cost at beginning of period		49,667,757,458	65,580,690,062	(7,662,255)	(32,078,911)	-
Additions		-	64,189,113	5,300,180,082	1,379,603,149	-
Disposals		-	-	(3,073,319,365)	(4,799,574,911)	(10,001,802)
Adjustments		-	-	14,765	70,214	-
Reclassifications		-	-	10,929,127	(10,929,127)	-
Balance at end of period		53,948,907,136	138,840,719,345	79,372,517,804	49,316,574,769	273,115,083
<u>Accumulated depreciation:</u>						
Balance at beginning of period		-	53,833,621,251	47,672,251,728	42,640,291,354	164,152,940
Depreciation expense on historical cost		-	1,205,278,426	5,779,704,768	2,910,750,609	12,101,694
Depreciation expense on revalued cost		-	581,259,886	-	-	-
Disposals		-	-	(3,007,046,078)	(4,751,704,230)	(9,726,995)
Adjustments		-	-	-	(645,727)	-
Reclassifications		-	-	7,130,368	(7,130,368)	-
Balance at end of period		-	55,620,159,563	50,452,040,786	40,791,561,638	166,527,639
Net balance at end of period	¢	53,948,907,136	83,220,559,782	28,920,477,018	8,525,013,131	106,587,444

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2022					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of year	¢	4,281,149,677	72,438,846,477	72,850,199,952	52,323,902,443	405,181,156	202,299,279,705
Revalued cost at beginning of year		49,374,508,222	65,580,690,063	(10,462,254)	(34,287,876)	-	114,910,448,155
Additions		-	756,993,692	8,980,137,897	3,752,714,555	1,500,000	13,491,346,144
Revaluation of assets		293,249,237	-	-	-	-	293,042,080
Disposals		-	-	(4,688,093,450)	(3,296,881,594)	-	(7,984,975,044)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Adjustments		-	-	2,680,000	2,208,965	-	4,888,965
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of year		53,948,907,136	138,776,530,232	77,134,713,196	52,747,405,442	283,116,885	322,890,672,891
<u>Accumulated depreciation:</u>							
Balance at beginning of year		-	51,251,241,262	44,854,279,721	41,725,835,190	271,403,052	138,102,759,225
Depreciation expense on historical cost		-	1,611,532,572	7,400,891,710	4,147,494,465	16,314,159	13,176,232,906
Depreciation expense on revalued cost		-	970,847,417	-	-	-	970,847,417
Disposals		-	-	(4,583,170,754)	(3,232,787,250)	-	(7,815,958,004)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of year	¢	-	53,833,621,251	47,672,251,728	42,640,291,354	164,152,940	144,310,317,273
Net balance at end of year	¢	53,948,907,136	84,942,908,981	29,462,461,468	10,107,114,088	118,963,945	178,580,355,618

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2022					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>							
Historical cost at beginning of period	¢	4,281,149,677	72,438,846,477	72,850,199,952	52,323,902,443	405,181,156	202,299,279,705
Revalued cost at beginning of period		49,374,508,221	65,580,690,063	(10,462,254)	(34,287,876)	-	114,910,448,154
Additions		-	697,138,146	5,768,664,768	2,299,103,593	-	8,764,906,508
Revaluation of assets		293,249,237	-	-	(1,453,995)	-	291,795,242
Disposals		-	-	(3,435,305,110)	(1,686,504,782)	-	(5,121,809,892)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Adjustments		-	-	2,732,676	-	-	2,732,676
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of period		53,948,907,136	138,716,674,686	75,176,081,083	52,900,508,332	281,616,885	321,023,788,122
<u>Accumulated depreciation:</u>							
Balance at beginning of period		-	51,251,241,262	44,854,279,721	41,725,835,190	271,403,052	138,102,759,225
Depreciation expense on historical cost		-	1,213,204,675	5,496,088,352	3,081,095,953	12,195,288	9,802,584,268
Depreciation expense on revalued cost		-	665,154,799	-	-	-	665,154,799
Disposals		-	-	(3,376,650,578)	(1,682,447,927)	-	(5,059,098,505)
Sales		-	-	-	-	(123,564,272)	(123,564,272)
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of period	¢	-	53,129,600,736	46,973,968,546	43,124,232,165	160,034,068	143,387,835,515
Net balance at end of period	¢	53,948,907,136	85,587,073,950	28,202,112,537	9,776,276,167	121,582,817	177,635,952,607

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

b) Right-of-use assets

Right-of-use assets comprise the lease of building and vehicles, as follows:

		September 2023		
		Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>				
Historical cost at beginning of period	¢	38,679,978,342	142,975,125	38,822,953,467
Additions		878,880,681	-	878,880,681
Adjustments		25,727,638,706	-	25,727,638,706
Balance at end of period		65,286,497,729	142,975,125	65,429,472,854
<u>Accumulated depreciation:</u>				
Balance at beginning of period		10,915,631,416	119,411,840	11,035,043,256
Depreciation expense on historical cost		2,874,760,525	23,563,285	2,898,323,810
Disposals		(34,400,845)	-	(34,400,845)
Adjustments		3,056,843	-	3,056,843
Balance at end of period		13,759,047,939	142,975,125	13,902,023,064
Net balance at end of period	¢	51,527,449,790	-	51,527,449,790

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		December 2022		
		Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>				
Historical cost at beginning of year	¢	38,662,163,871	107,630,182	38,769,794,053
Additions		716,822,874	-	716,822,874
Revaluation of assets		(37,094,502)		(37,094,502)
Disposals		(965,626,670)	-	(965,626,670)
Adjustments		303,712,771	35,344,945	339,057,716
Balance at end of year		38,679,978,344	142,975,127	38,822,953,471
<u>Accumulated depreciation:</u>				
Balance at beginning of year		8,604,657,643	88,061,098	8,692,718,741
Depreciation expense on historical cost		2,854,742,747	31,350,741	2,886,093,488
Disposals		(458,900,351)	-	(458,900,351)
Adjustments		(84,868,622)	-	(84,868,622)
Balance at end of year		10,915,631,417	119,411,839	11,035,043,256
Net balance at end of year	¢	27,764,346,927	23,563,288	27,787,910,215
		September 2022		
		Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>				
Historical cost at beginning of period	¢	38,662,163,871	107,630,231	38,769,794,102
Additions		7,382,887	-	7,382,887
Disposals		(764,307,629)	-	(764,307,629)
Adjustments		170,764,467	-	170,764,467
Reclassifications		(219,446,129)	-	(219,446,129)
Balance at end of period		37,856,557,467	107,630,231	37,964,187,698
<u>Accumulated depreciation:</u>				
Balance at beginning of period		8,604,657,643	88,061,098	8,692,718,741
Depreciation expense on historical cost		2,142,636,991	19,569,133	2,162,206,124
Disposals		(246,725,278)	-	(246,725,278)
Adjustments		(84,868,622)	-	(84,868,622)
Reclassifications		(201,319,041)	-	(201,319,041)
Balance at end of period		10,214,381,693	107,630,231	10,322,011,924
Net balance at end of period	¢	27,642,175,725	-	27,642,175,725

(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:

	<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Interest on lease liabilities	¢ <u>2,986,617,879</u>	<u>3,601,050,576</u>	<u>2,763,114,476</u>
Expenses for leases of low-value assets, excluding short-term assets	¢ <u>256,778,472</u>	<u>719,978,467</u>	<u>503,009,196</u>

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

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

	<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Cash outflows for leases	¢ <u>(1,572,160,030)</u>	<u>(2,975,953,849)</u>	<u>(1,879,823,188)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

Other assets are as follows:

	September 2023	December 2022	September 2022
<i><u>Deferred charges:</u></i>			
Leasehold improvements (1)	¢ 1,836,689	4,925,965	5,955,723
Cost of issue of financial instruments, net (2)	9,547,226	102,345,247	138,581,447
Cost of subordinated debt project	20,748,142	28,212,520	31,617,322
Other deferred charges	3,550,912,153	14,195,002,205	17,743,032,222
	<u>3,583,044,210</u>	<u>14,330,485,937</u>	<u>17,919,186,714</u>
<i><u>Intangible assets:</u></i>			
Software (3)	5,102,339,839	8,968,845,348	6,978,543,807
Other intangible assets (3)	9,313,390	8,831,483	8,831,483
	<u>5,111,653,229</u>	<u>8,977,676,831</u>	<u>6,987,375,290</u>
<i><u>Other assets:</u></i>			
Prepaid taxes	24,329,141,522	25,673,751,490	18,810,609,838
Prepaid insurance policy	361,629,778	228,429,816	358,879,772
Other prepaid expenses	6,624,123,286	5,349,770,814	7,739,331,997
Stationery, office supplies and other materials	691,641,478	1,013,805,560	1,111,125,495
Leased assets	117,662,462	118,708,632	119,061,188
Library and artwork	404,704,948	404,704,948	404,704,948
Construction work in progress	214,941,893	214,941,893	214,941,893
Automated applications under development	132,498,126	143,126,460	184,027,326
Payments to welfare and trade associations	350,000	350,000	350,000
Other sundry assets	153,486,106	153,486,106	153,486,106
Operations pending settlement	13,578,159,295	11,988,708,377	12,769,394,740
Other operations pending application	324,602,255	113,620,383	296,365,438
Security deposits (Note 7)	759,678,983	320,427,052	352,451,336
Legal and administrative deposits (Note 7)	253,230,750	212,454,762	197,120,202
	<u>47,945,850,882</u>	<u>45,936,286,293</u>	<u>42,711,850,279</u>
¢	<u>56,640,548,321</u>	<u>69,244,449,061</u>	<u>67,618,412,283</u>

(1) As of September 30, 2023, the amortization expense for leasehold improvements amounts to ¢3,089,276 (December and September 2022: ¢4,831,259 and ¢3,801,501, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(2) The costs of issue of financial instruments are as follows:

	September 2023		
	5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	¢ 271,175,000	271,175,000	542,350,000
Commission - Moody's Investors Service	135,587,500	135,587,500	271,175,000
Commission - Société de la Bourse de Luxembourg S.A.	6,628,059	6,628,059	13,256,118
RR Donelley	5,937,105	5,937,084	11,874,189
BNY Mellon	2,143,910	2,143,910	4,287,820
Moody's issuer rating	17,951,785	17,951,785	35,903,570
Fitch Ratings	135,587,500	135,587,500	271,175,000
Milbank	79,812,226	79,812,226	159,624,452
Shearman & Sterling	79,915,815	79,916,075	159,831,890
External audit	103,046,500	103,046,500	206,093,000
	837,785,400	837,785,639	1,675,571,039
Amortization	(837,785,400)	(828,238,413)	(1,666,023,813)
	¢ -	9,547,226	9,547,226
	December 2022		
	5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	¢ 300,995,000	300,995,000	601,990,000
Commission - Moody's Investors Service	150,497,500	150,497,500	300,995,000
Commission - Société de la Bourse de Luxembourg S.A.	7,356,920	7,356,920	14,713,840
RR Donelley	6,589,985	6,589,960	13,179,945
BNY Mellon	2,379,667	2,379,666	4,759,333
Moody's issuer rating	19,925,869	19,925,869	39,851,738
Fitch Ratings	150,497,500	150,497,500	300,995,000
Milbank	88,588,848	88,588,849	177,177,697
Shearman & Sterling	88,703,828	88,703,828	177,407,657
External audit	114,378,100	114,378,100	228,756,200
	929,913,217	929,913,193	1,859,826,410
Amortization	(929,913,217)	(827,567,946)	(1,757,481,163)
	¢ -	102,345,247	102,345,247

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2022		
	5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	316,360,000	316,360,000	632,720,000
Commission - Moody's Investors Service	158,180,000	158,180,000	316,360,000
Commission - Société de la Bourse de Luxembourg S.A.	7,732,471	7,732,471	15,464,942
RR Donelley	6,926,386	6,926,360	13,852,746
BNY Mellon	2,501,142	2,501,142	5,002,284
Moody's issuer rating	20,943,032	20,943,032	41,886,064
Fitch Ratings	158,180,000	158,180,000	316,360,000
Milbank	93,111,075	93,111,075	186,222,150
Shearman & Sterling	93,231,925	93,231,924	186,463,849
External audit	120,216,800	120,216,800	240,433,600
	977,382,831	977,382,804	1,954,765,635
Amortization	(977,382,831)	(838,801,358)	(1,816,184,189)
	¢ -	138,581,446	138,581,446

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(3) Intangible assets, net

		September 2023		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Balance at beginning of period	¢	39,900,777,789	8,831,483	39,909,609,272
Additions		524,931,869	28,422,077	553,353,946
Disposals		(4,672,450,867)	-	(4,672,450,867)
Adjustments		-	(27,940,170)	(27,940,170)
Balance at end of period		<u>35,753,258,791</u>	<u>9,313,390</u>	<u>35,762,572,181</u>
<u>Accumulated amortization:</u>				
Balance at beginning of period		30,931,932,440	-	30,931,932,440
Expense for the period		4,295,855,015	27,940,170	4,323,795,185
Disposals		(4,551,308,045)	-	(4,551,308,045)
Adjustments		(25,560,458)	(27,940,170)	(53,500,628)
Balance at end of period		<u>30,650,918,952</u>	<u>-</u>	<u>30,650,918,952</u>
Net balance at end of period	¢	<u>5,102,339,839</u>	<u>9,313,390</u>	<u>5,111,653,229</u>
		December 2022		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Balance at beginning of year	¢	35,209,164,295	50,494,354	35,259,658,649
Additions		5,534,205,218	35,832,955	5,570,038,173
Disposals		(796,116,331)	(42,095,559)	(838,211,890)
Adjustments		(46,475,393)	(35,400,267)	(81,875,660)
Balance at end of year		<u>39,900,777,789</u>	<u>8,831,483</u>	<u>39,909,609,272</u>
<u>Accumulated amortization:</u>				
Balance at beginning of year		26,045,610,451	42,095,559	26,087,706,010
Expense for the year		5,603,292,401	35,325,935	5,638,618,336
Disposals		(667,390,964)	(42,095,559)	(709,486,523)
Adjustments		(49,579,447)	(35,325,935)	(84,905,382)
Balance at end of year		<u>30,931,932,441</u>	<u>-</u>	<u>30,931,932,441</u>
Net balance at end of year	¢	<u>8,968,845,348</u>	<u>8,831,483</u>	<u>8,977,676,831</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2022		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Balance at beginning of period	¢	35,209,164,295	50,494,354	35,259,658,649
Additions		1,717,489,972	27,001,472	1,744,491,444
Disposals		(29,193,648)	-	(29,193,648)
Reclassifications		(15,535,239)	(26,568,784)	(42,104,023)
Balance at end of period		<u>36,881,925,380</u>	<u>50,927,042</u>	<u>36,932,852,422</u>
<u>Accumulated amortization:</u>				
Balance at beginning of period		26,045,610,451	42,095,559	26,087,706,010
Expense for the period		3,870,800,146	26,568,786	3,897,368,932
Reclassifications		(13,029,023)	(26,568,787)	(39,597,810)
Balance at end of period		<u>29,903,381,574</u>	<u>42,095,558</u>	<u>29,945,477,132</u>
Net balance at end of period	¢	<u>6,978,543,806</u>	<u>8,831,484</u>	<u>6,987,375,290</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:

	<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
<i><u>Demand deposits:</u></i>			
Checking accounts	¢ 2,257,183,194,701	2,043,303,492,671	2,251,234,443,240
Certified checks	76,807,896	82,905,436	41,064,677
Savings deposits	2,227,655,778,242	2,235,282,084,991	2,105,823,900,919
Matured term deposits	13,931,107,442	19,669,968,927	20,145,386,533
Other demand deposits	102,086,354	106,460,320	127,788,657
Drafts and transfers payable	36,871,095	40,420,863	62,435,984
Cashier's checks	5,195,753,254	4,531,280,930	5,749,160,428
Advance collections from customers for credit cards	11,508,173,681	11,663,506,960	11,108,146,174
Trust fund obligation	24,133,177	37,235,289	30,370,207
	<u>4,515,713,905,842</u>	<u>4,314,717,356,387</u>	<u>4,394,322,696,819</u>
<i><u>Term deposits:</u></i>			
Deposits from the public	1,916,450,610,572	1,693,242,933,309	1,735,154,248,345
Other term deposits	88,812,636,494	97,423,859,878	97,379,065,479
	<u>2,005,263,247,066</u>	<u>1,790,666,793,187</u>	<u>1,832,533,313,824</u>
<i><u>Other obligations with the public:</u></i>			
Finance charges payable	59,326,765,816	36,671,811,687	30,234,058,291
	<u>¢ 6,580,303,918,724</u>	<u>6,142,055,961,261</u>	<u>6,257,090,068,934</u>

As of September 30, 2023, deposits in checking accounts in colones bear interest at a maximum rate of 3.05% per annum on full balances (December and September 2022: 3.05% per annum), and at a minimum rate of 0% per annum on balances greater than or equal to ¢500,001 (December and September 2022: 0.00%). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances (December and September 2022: 0.20% per annum) and at a minimum rate of 0% per annum on balances greater than or equal to US\$1,000 (December and September 2022: 0% per annum).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Currency	September 2023	December 2022	September 2022
Colones	4.31% to 6.95%	4.30% to 9.54%	4.30% to 9.54%
US dollars	1.83% to 4.95%	0.10% to 3.80%	0.10% to 3.80%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of September 30, 2023, the balance of those term certificates of deposit is ¢80,904,576,069 (December and September 2022: ¢82,625,362,702 and ¢82,014,228,524, 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 2023	December 2022	September 2022
Financing of loans using internal funds - BCCR (i)	150,094,965,833	164,570,763,666	164,570,763,666
Financing of loans using external funds (ii)	¢ 125,644,411	125,644,412	125,644,412
Finance charges payable	2,944,511,624	2,265,548,263	1,929,092,480
	<u>¢ 153,165,121,868</u>	<u>166,961,956,341</u>	<u>166,625,500,558</u>

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

Obligations with financial entities are as follows:

	September 2023	December 2022	September 2022
<i><u>Demand:</u></i>			
Checking accounts with local financial entities	¢ 55,993,465,674	43,916,537,730	47,931,141,212
Savings deposits with local financial entities	31,482,231	34,658,874	23,977,928
Outstanding checks	3,060,790,864	1,208,142,711	2,940,741,494
Matured term deposits	94,249,000	61,018,729	233,865,646
Checking accounts and obligations with related parties (Note 8)	93,430,365	44,277,901	24,250,655
	<u>59,273,418,134</u>	<u>45,264,635,945</u>	<u>51,153,976,935</u>
<i><u>Term:</u></i>			
Term deposits with local financial entities	102,796,545,271	87,641,877,298	72,258,922,246
Term obligations with foreign financial entities (2)	96,585,739,853	103,761,660,525	108,888,176,236
Obligations for funds from the liquidity market	43,172,334,198	36,675,790,002	37,548,968,801
Loans from foreign financial entities (3) (4)	99,070,315,210	111,571,141,028	115,791,429,776
Lease liabilities (1)	54,751,765,056	32,276,066,066	33,171,213,428
Obligations for deferred liquidity operations	-	33,000,000,000	-
Notes payable for BNCR financing	28,931,731,921	31,181,086,370	31,937,156,874
Obligations with funds from the Development Credit Fund	143,342,679,722	180,863,648,754	185,602,479,383
	<u>568,651,111,231</u>	<u>616,971,270,043</u>	<u>585,198,346,744</u>
(Deferred fees and commissions on own loan portfolio)	-	(103,269,735)	(56,034,847)
	<u>-</u>	<u>(103,269,735)</u>	<u>(56,034,847)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	117,190,170	77,816,225	21,612,797
Charges payable for other demand and term obligations with financial entities – local currency	1,716,168,088	1,025,796,679	636,138,842
Charges payable for loans with foreign financial entities (3)(4)	2,238,633,646	509,773,987	2,281,221,216
Charges payable for loans with local financial entities (3)	71,076,149	81,717,408	72,469,463
Charges payable for term deposits with foreign financial entities (2)	2,464,076,880	1,094,016,546	2,874,657,922
	<u>6,607,144,933</u>	<u>2,789,120,845</u>	<u>5,886,100,240</u>
¢	<u>634,531,674,298</u>	<u>664,921,757,098</u>	<u>642,182,389,072</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Lease liabilities

As of September 30, 2023, long-term lease liabilities and their current portion amount to ¢8,064,177,063 and US\$84,517,169, respectively, for a total in colones of ¢53,902,063,587, using an exchange rate of ¢549.48 (December 2022: ¢7,148,807,318 and US\$40,175,051, respectively, for a total in colones of ¢31,333,786,038, using an exchange rate of ¢601.99; September 2022: ¢7,069,713,543 and US\$40,705,267, for a total in colones of ¢32,824,749,790, using an exchange rate of ¢632.72).

Lease operations are as follows:

	September 2023			September 2022		
	No. of operations	Interest rates	Maturity dates	No. of operations	Interest rates	Maturity dates
In colones	20	5.56% and 15% per annum	2023 and 2048	18	5.56% and 15% per annum	2022 and 2041
In US dollars	54	3.57% and 8.85% per annum	2023 and 2048	54	3.57% and 8.85% per annum	2022 and 2041
	74			72		

Future minimum lease payments are as follows:

	September 2023		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢ 6,720,655,001	4,342,997,632	2,377,659,386
Between one and five years	34,580,659,336	18,528,864,037	16,051,805,385
More than five years	51,447,113,333	15,124,836,832	36,322,300,490
	¢ 92,748,427,670	37,996,698,501	54,751,765,056

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2022		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢ 5,079,171,486	3,080,728,604	1,998,445,235
Between one and five years	23,824,495,603	12,350,156,854	11,474,350,518
More than five years	27,879,077,307	8,180,671,919	19,698,435,727
	¢ <u>56,782,744,397</u>	<u>23,611,557,378</u>	<u>33,171,231,480</u>

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

	September 2023	December 2022	September 2022
Balance at beginning of period	¢ 32,276,066,066	35,793,605,766	35,470,104,910
New financial obligations	25,209,443,178	393,322,020	-
Settlements or withdrawals		(662,645,977)	(662,645,977)
Adjustments	1,432,517,180	576,526,206	401,645,315
Payment of obligations	(1,572,160,038)	(2,138,603,082)	(1,610,816,333)
Foreign exchange differences	(2,594,101,330)	(1,686,137,928)	(427,074,488)
Balance at end of period	¢ <u>54,751,765,054</u>	<u>32,276,067,005</u>	<u>33,171,213,428</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Date of issue</u>	<u>Face value (in millions)</u>	<u>Characteristics</u>
19/10/2007	US\$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
04/09/2007	US\$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
07/05/2007	US\$10	Traded amount: 100% Term: 17 years Interest rate: 6.20 per coupon
03/12/2007	US\$75	Traded amount: 100% Term: 22 years Interest rate: 6.65 per coupon
24/11/2020	US\$10	Traded amount: 100% Term: 3 years Tasa de Interes: 8.05 per coupon
05/01/2021	US\$40	Traded amount: 100% Term: 3 years Interest rate: 8.05 per coupon
21/07/2016	US\$8.1	Traded amount: 100% Term: 7 years Interest rate: 3.32 per coupon
27/04/2016	US\$1.6	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
27/04/2016	US\$15.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
01/11/2013	US\$500	Traded amount: 99.07% Term: 10 years Interest rate: 6.25% per coupon
30/11/2015	US\$2.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
13/05/2015	US\$5.4	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
09/02/2015	US\$2.8	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
30/01/2015	US\$3.1	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
14/12/2022	US\$5.0	Traded amount: 100% Term: 8 years Interest rate: 10.44 per coupon

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Obligations with international issuers

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

September 2023		
	10-year issue (maturing in 2023)	Total
Issue	¢ 93,742,471,692	93,742,471,692
Adjustment to fair value of hedged item measured at cost of international issues	1,981,488,835	1,981,488,835
Amortization of discount in traded amount of issues	861,779,326	861,779,326
	96,585,739,853	96,585,739,853
Finance charges payable	2,464,076,880	2,464,076,880
	¢ 99,049,816,733	99,049,816,733
December 2022		
	10-year issue (maturing in 2023)	Total
Issue	¢ 104,050,945,946	104,050,945,946
Adjustment to fair value of hedged item measured at cost of international issues	(1,145,892,786)	(1,145,892,786)
Amortization of discount in traded amount of issues	856,607,365	856,607,365
	103,761,660,525	103,761,660,525
Finance charges payable	1,094,016,546	1,094,016,546
	¢ 104,855,677,071	104,855,677,071
September 2022		
	10-year issue (maturing in 2023)	Total
Issue	¢ 109,362,472,000	109,362,472,000
Adjustment to fair value of hedged item measured at cost of international issues	(1,346,608,024)	(1,346,608,024)
Amortization of discount in traded amount of issues	872,312,260	872,312,260
	108,888,176,236	108,888,176,236
Finance charges payable	2,874,657,922	2,874,657,922
	¢ 111,762,834,158	111,762,834,158

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2023		
		Local	Foreign	Total
Less than one year	¢	-	57,034,319,756	57,034,319,756
One to two years		1,870,839,240	-	1,870,839,240
Three to five years		780,934,502	-	780,934,502
More than five years		26,351,034,328	44,353,288,089	70,704,322,417
	¢	<u>29,002,808,070</u>	<u>101,387,607,845</u>	<u>130,390,415,915</u>
		December 2022		
		Local	Foreign	Total
Less than one year	¢	-	105,857,727,682	105,857,727,682
One to two years		81,717,408	3,213,237,333	3,294,954,741
Three to five years		3,178,742,647	-	3,178,742,647
More than five years		28,002,343,723	3,024,880,857	31,027,224,580
	¢	<u>31,262,803,778</u>	<u>112,095,845,872</u>	<u>143,358,649,650</u>
		September 2022		
		Local	Foreign	Total
One to two years		72,469,463	69,566,753,992	69,639,223,455
Three to five years		3,375,073,760	-	3,375,073,760
More than five years		28,562,083,114	48,505,897,000	77,067,980,114
	¢	<u>32,009,626,337</u>	<u>118,072,650,992</u>	<u>150,082,277,329</u>

(4) As of September 30, 2023, loans due to foreign financial entities bear interest at rates ranging from 3.32% to 10.44% per annum (December and September 2022: from 3.32% to 6.92% and 3.32% and 6.20%, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
Balance at beginning of period	¢ 142,752,227,398	154,159,108,956	154,159,108,956
New financial obligations	-	3,014,300,000	-
Settlement of financial obligations	(3,708,278,069)	(6,621,048,346)	(4,256,185,646)
Foreign exchange differences	(11,041,902,198)	(7,800,133,212)	(2,174,336,660)
Cash flows from financing activities	<u>(14,750,180,267)</u>	<u>(11,406,881,558)</u>	<u>(6,430,522,306)</u>
Balance at end of period	¢ <u><u>128,002,047,131</u></u>	<u><u>142,752,227,398</u></u>	<u><u>147,728,586,650</u></u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(21) Income tax

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

a) Income tax for the year

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

	September		Quarter from July 1 to September 30	
	2023	2022	2023	2022
<u>Current tax:</u>				
Current tax expense for the period	¢ 22,613,788,656	21,467,458,480	6,271,230,799	6,872,652,933
Prior-period income tax expense	10,664,429,022	10,641,928,449	3,547,309,482	3,547,309,483
	33,278,217,678	32,109,386,929	9,818,540,281	10,419,962,416
<u>Current tax:</u>				
Current tax expense for the period	¢ 22,613,788,656	21,467,458,480	6,271,230,799	6,872,652,933
Income tax decrease for the period	-	(50,507,323)	-	(50,507,323)
	22,613,788,656	21,416,951,157	6,271,230,799	6,822,145,610
<u>Deferred tax:</u>				
Deferred tax expense	1,647,762,932	1,498,864,171	247,353,571	1,165,233,836
Deferred tax income	(1,234,952,647)	(1,450,866,403)	(226,448,176)	(413,876,659)
Deferred tax expense, net	412,810,285	47,997,768	20,905,395	751,357,177
Tax expense, net	¢ 33,691,005,285	32,106,877,374	9,839,445,676	11,120,812,270

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The difference between the income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	<u>September 2023</u>		<u>September 2022</u>	
Profit before tax	¢ 73,117,296,142		75,096,285,815	
<i>Plus (less) tax effect of:</i>				
Non-deductible expenses	454,413,397,641	603%	36,025,358,047	50%
Deductible expenses	(12,776,259,018)	17%	(9,422,923,759)	13%
Non-taxable income	(439,476,693,943)	583%	(30,488,390,726)	43%
Taxable income	<u>101,554,690</u>	0%	<u>179,507,814</u>	0%
Tax base	<u>75,379,295,512</u>		<u>71,389,837,191</u>	
Tax rate	<u>30%</u>		<u>30%</u>	
Income tax expense	22,613,788,656	30%	21,416,951,157	30%
Prior-period income tax expense	10,664,429,022	14%	10,641,928,449	15%
Decrease in prior-period income tax	(22,678)	0%	-	0%
Deferred tax expense	1,647,762,932	2%	1,498,864,171	2%
Deferred tax income	(1,234,952,647)	2%	(1,450,866,403)	(2%)
Deferred tax expense, net	412,810,285	1%	47,997,768	0%
Net income tax expense	¢ <u>33,691,005,285</u>	45%	<u>32,106,877,374</u>	(45%)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred tax

Deferred tax assets and liabilities are as follows:

		September 2023		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,465,924,570	-	1,465,924,570
Provisions		15,970,893	-	15,970,893
Right-of-use assets		957,982,936	-	957,982,936
Unrealized gains on valuation of investments		-	(1,050,093,076)	(1,050,093,076)
Revaluation of property		-	(8,868,340,295)	(8,868,340,295)
Tax base of property and equipment		-	(4,618,076,268)	(4,618,076,268)
	¢	<u>2,439,878,399</u>	<u>(14,536,509,639)</u>	<u>(12,096,631,240)</u>
		December 2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	6,272,437,619	-	6,272,437,619
Provisions		(80,540,126)	-	(80,540,126)
Right-of-use assets		1,333,033,888	-	1,333,033,888
Unrealized gains on valuation of investments		-	(758,036,573)	(758,036,573)
Revaluation of property		-	(9,042,911,732)	(9,042,911,732)
Tax base of property and equipment		-	(4,562,681,241)	(4,562,681,241)
	¢	<u>7,524,931,381</u>	<u>(14,363,629,546)</u>	<u>(6,838,698,165)</u>
		September 2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	7,448,988,221	-	7,448,988,221
Provisions		(110,278,369)	-	(110,278,369)
Right-of-use assets		1,647,004,300	-	1,647,004,300
Unrealized gains on valuation of investments		-	(756,963,169)	(756,963,169)
Revaluation of property		-	(9,134,684,716)	(9,134,684,716)
Tax base of property and equipment		-	(4,823,167,651)	(4,823,167,651)
	¢	<u>8,985,714,152</u>	<u>(14,714,815,536)</u>	<u>(5,729,101,384)</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are as follows:

	December 2022	Included in the income statement	Included in equity	September 2023
Unrealized losses on valuation of investments	¢ 6,272,437,619	-	(4,806,513,049)	1,465,924,570
Provisions	(80,540,126)	96,511,019	-	15,970,893
Right-of-use assets	1,333,033,888	(375,050,952)	-	957,982,936
Unrealized gains on valuation of investments	(758,036,573)	(239,608,585)	(52,447,918)	(1,050,093,076)
Revaluation of property	(9,042,911,732)	-	174,571,437	(8,868,340,295)
Tax base of property and equipment	(4,562,681,241)	(55,395,027)	-	(4,618,076,268)
	¢ (6,838,698,165)	(573,543,545)	(4,684,389,530)	(12,096,631,240)

	December 2021	Included in the income statement	Included in equity	December 2022
Unrealized losses on valuation of investments	¢ 1,085,414,530	-	5,187,023,089	6,272,437,619
Provisions	(102,817,740)	22,277,614	-	(80,540,126)
Right-of-use assets	1,608,334,393	(1,316,649,692)	1,041,349,187	1,333,033,888
Unrealized gains on valuation of investments	(3,814,233,918)	13,464,553	3,042,732,792	(758,036,573)
Revaluation of property	(8,836,563,020)	-	(206,348,712)	(9,042,911,732)
Tax base of property and equipment	(4,738,688,539)	(698,806,087)	874,813,385	(4,562,681,241)
	¢ (14,798,554,294)	(1,979,713,612)	9,939,569,741	(6,838,698,165)

	December 2021	Included in the income statement	Included in equity	September 2022
Unrealized losses on valuation of investments	¢ 1,085,414,530	-	6,363,573,691	7,448,988,221
Provisions	(102,817,740)	(7,460,629)	-	(110,278,369)
Right-of-use assets	1,608,334,393	(869,360,704)	908,030,610	1,647,004,299
Unrealized gains on valuation of investments	(3,814,233,918)	899,443	3,056,371,307	(756,963,168)
Revaluation of property	(8,836,563,020)	-	(298,121,696)	(9,134,684,716)
Tax base of property and equipment	(4,738,688,539)	(592,772,871)	508,293,759	(4,823,167,651)
	¢ (14,798,554,294)	(1,468,694,761)	10,538,147,671	(5,729,101,384)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of September 30, 2023, the Bank has not recognized a deferred tax liability in the amount of ¢4,892,984,279 (December and September 2022: ¢4,079,928,406), given that it controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Conglomerate for the years ended December 31, 2022, and the tax return that will be filed for the year ended December 31, 2023, are open to review by the Tax Authorities.

(22) Provisions

Provisions are detailed as follows:

	September 2023	December 2022	September 2022
Severance benefits	¢ 341,666,833	312,966,075	366,535,608
Litigation	5,885,023,250	3,980,700,568	6,925,528,072
Inactive checking and savings accounts liquidated	640,388,042	715,837,949	753,736,246
Manager commissions (1)	-	-	5,279,882,283
Variation in RIVM methodology	490,003,103	490,003,103	490,003,103
Notice of deficiency	10,297,400,719	4,714,347,682	4,714,347,682
Other	772,709,680	633,295,021	643,623,688
	¢ <u>18,427,191,627</u>	<u>10,847,150,398</u>	<u>19,173,656,682</u>

(1) During 2022, the study on the inspection of the employee-employer contributions and interest made by Caja Costarricense de Seguro Social (CCSS) was completed. Therefore, CCSS performed the collection to the Conglomerate regarding the recognition of manager commissions as salary

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Movement in provisions is as follows:

September 2023				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2022	¢ 312,966,075	3,980,700,568	6,553,483,755	10,847,150,398
Increase in provision	51,655,361	4,617,044,356	12,381,957,188	17,050,656,905
Used	6,348,097	(2,493,224,860)	(3,582,048,618)	(6,068,925,381)
Decrease in provision	(29,302,700)	(219,496,814)	(3,152,890,781)	(3,401,690,295)
Balance as of September 30, 2023	¢ 341,666,833	5,885,023,250	12,200,501,544	18,427,191,627

December 2022				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2021	¢ 314,133,990	6,952,427,372	21,375,324,034	28,641,885,396
Increase in provision	95,454,560	440,227,797	5,057,286,616	5,592,968,973
Used	57,365,375	819,647,992	(19,805,731,708)	(18,928,718,341)
Decrease in provision	(153,987,850)	(4,231,602,593)	(73,395,187)	(4,458,985,630)
Balance as of December 31, 2022	¢ 312,966,075	3,980,700,568	6,553,483,755	10,847,150,398

September 2022				
	Severance benefits	Litigation	Other	Total
Balance as of December 31, 2021	¢ 314,133,990	6,952,427,372	21,375,324,034	28,641,885,396
Increase in provision	82,855,184	414,784,604	3,792,195,514	4,289,835,302
Used	59,545,870	990,198,141	(13,213,249,823)	(12,163,505,812)
Decrease in provision	(89,999,436)	(1,431,882,045)	(72,676,723)	(1,594,558,204)
Balance as of September 30, 2022	¢ 366,535,608	6,925,528,072	11,881,593,002	19,173,656,682

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate is a defendant in pending lawsuits, for which the potential outflow of economic benefits is considered. As of September 30, the Conglomerate has estimated future outflows and made the following provisions:

Type	Claimed amount			Provision		
	September 2023	December 2022	September 2022	September 2023	December 2022	September 2022
Ordinary - in colones	9,388,760,559	16,836,533,174	18,615,532,435	3,567,478,859	599,701,381	3,605,399,918
Ordinary - in US dollars	72,508,175,581	81,982,715,884	139,647,317,914	313,030,677	3,254,231,270	3,107,615,088
Criminal - in colones	1,084,799,813	1,020,877,223	1,020,877,223	-	-	-
Labor - in colones	639,621,036	866,092,477	948,689,105	2,004,513,714	126,767,917	212,513,066
	<u>83,621,356,989</u>	<u>100,706,218,758</u>	<u>160,232,416,677</u>	<u>5,885,023,250</u>	<u>3,980,700,568</u>	<u>6,925,528,072</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 2023	December 2022	September 2022
Professional fees	¢ 19,764,796	2,124,000	15,602,782
Creditors - goods and services	8,749,635,452	6,444,687,376	5,800,566,929
Income tax	22,613,788,656	29,111,096,949	21,416,951,157
Value added tax	219,626,511	282,111,653	249,220,784
Employer contributions	13,203,636,564	12,585,351,304	11,208,370,315
Court-ordered withholdings	3,919,364,577	4,242,069,805	4,262,581,628
Tax withholdings	2,463,836,373	2,166,235,676	1,728,301,072
Employee withholdings	940,890,334	918,129,686	901,534,415
Other third-party withholdings	359,633,341	9,494,494	392,697,276
Compensation	22,578,304,847	21,254,809,763	18,173,199,493
Statutory allocations	27,215,833,862	30,595,829,657	23,986,744,020
Obligations on loans with related parties	-	-	93,064
Clearing house operations	131,921,683	106,576,220	721,378,490
Accrued vacation	6,450,415,786	5,796,450,453	5,888,935,120
Accrued statutory Christmas bonus	8,842,695,619	2,402,631,606	7,976,973,860
Assets held for sale	255,655,627	81,392,010	134,888,658
Provisional deposits for the payment of premiums	2,371,221,651	1,724,766,840	2,650,718,809
SICOP guarantees	1,196,266,498	1,257,167,862	1,309,989,701
Fee international organizations	1,531,500,000	-	1,575,675,000
Amounts received for partial sales of assets held for sale	757,148,912	809,316,748	-
Master Card and Visa payments	2,074,906,962	1,909,533,657	1,751,963,812
Various creditors	4,311,217,189	3,828,026,290	5,344,046,348
Interest rate futures - Hedges (Note 9)	1,333,583,043	2,527,300,900	1,778,155,516
Purchase of FX futures	53,628,000	-	-
	¢ <u>131,594,476,283</u>	<u>128,055,102,949</u>	<u>117,268,588,249</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

Other liabilities are as follows:

	<u>September 2023</u>	<u>December 2022</u>	<u>September 2022</u>
<i><u>Deferred income:</u></i>			
Deferred fees and commissions for trust management	¢ <u>77,521,399</u>	<u>100,946,981</u>	<u>92,595,845</u>
	<u>77,521,399</u>	<u>100,946,981</u>	<u>92,595,845</u>
<i><u>Operations pending settlement:</u></i>			
Operations pending settlement	2,552,063,897	14,112,053,303	3,363,840,719
Other operations pending settlement	<u>23,765,833,488</u>	<u>16,283,878,923</u>	<u>23,366,675,280</u>
	<u>26,317,897,385</u>	<u>30,395,932,226</u>	<u>26,730,515,999</u>
¢	<u><u>26,395,418,784</u></u>	<u><u>30,496,879,207</u></u>	<u><u>26,823,111,844</u></u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(25) Subordinated obligations

Subordinated obligations are as follows:

Entity	Interest rate per annum	Term	Maturity	September 2023	December 2022	September 2022
IDB	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	18/02/2032	45,000,000	45,000,000	45,000,000
CABEI	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	23/10/2029	18,750,000	21,000,000	21,750,000
AFD	Fixed rate at 8.28% over the entire term (1)	10	29/09/2031	15,000,000	15,000,000	15,000,000
FINDEV	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	18/02/2032	30,000,000	30,000,000	30,000,000
				US\$ 108,750,000	111,000,000	111,750,000
Total equivalent in colones				¢ 58,980,562,500	66,820,890,000	70,706,460,000
Finance charges payable				¢ 820,946,875	2,087,280,318	796,310,427
				¢ 59,801,509,375	68,908,170,318	71,502,770,427

(1) Credit facility agreement CCR1006 02 subscribed by Banco Nacional de Costa Rica and the French Development Agency, authorized by SUGEF on December 23, 2021.

Through Note SGF 1878-2023 dated July 28, 2023, SUGEF authorizes the proposed changes to the provisions on the inclusion of the secured overnight financing rate (SOFR) as a benchmark rate to replace LIBOR, modifying debt agreement No. 2137 subscribed by Banco Centroamericano de Integración Económica (BCIE) and Banco Nacional de Costa Rica.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

		September 2023	December 2022	September 2022
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837	27,618,957,837
	¢	<u>172,237,030,102</u>	<u>172,237,030,102</u>	<u>172,237,030,102</u>

(b) Capital reserves

Capital reserves are as follows:

		September 2023	December 2022	September 2022
Legal reserve	¢	403,604,716,091	366,238,968,825	366,285,473,745
Statutory reserve for assets held for sale		4,404,130,573	4,532,818,969	3,953,574,667
Excess of statutory reserve for loans		4,994,348,196	6,069,719,151	5,011,482,101
Statutory dynamic provision		9,585,489,952	10,323,772,636	10,879,983,356
	¢	<u>422,588,684,812</u>	<u>387,165,279,581</u>	<u>386,130,513,869</u>

(c) Equity of the Development Financing Fund

As of September 30, 2023, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢48,624,595,226 (December and September 2022: ¢44,436,595,670).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Memoranda accounts

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 2023	December 2022	September 2022
Sureties	¢ 1,506,357	-	-
Performance bonds	40,424,410,353	41,588,492,525	42,584,292,736
Bid bonds	1,165,040,523	3,621,690,761	1,551,150,222
Other guarantees	595,560,510	128,434,913	-
Letters of credit	1,539,212,649	3,778,668,632	4,256,386,491
Credits pending disbursement	115,233,348	118,433,348	124,833,348
	<u>43,840,963,740</u>	<u>49,235,720,179</u>	<u>48,516,662,797</u>
Pre-approved lines of credit	305,797,289,370	293,573,614,230	306,619,752,577
Other contingencies not related to loans	83,658,102	83,658,103	83,658,103
Other contingencies - Pending litigation and lawsuits (Note 51)	83,623,029,957	100,706,235,943	160,233,224,246
	<u>389,503,977,429</u>	<u>394,363,508,276</u>	<u>466,936,634,926</u>
Sale of FX futures – Other than hedges	4,843,185,500	150,497,500	332,178,000
	<u>¢ 438,188,126,669</u>	<u>443,749,725,955</u>	<u>515,785,475,723</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(28) Trust assets

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

The types of trusts managed are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Guaranty and custody of stock	Rentier management and investment	Premium protection	Equity planning	Public works	Trusts with public funds	Total
<i>Trust assets</i>																
Cash and due from banks	¢ 14,803,454	30,786,916	13,989,444	1,084,700	464,316	-	-	-	-	-	166,317	228,245,792	-	6,644,926	115,503,290	411,689,155
Investments in financial instruments	1,722,845,658	192,722,078	647,164,022	2,476,628,490,595	2,850,764,897	802,686	-	1,892,382	-	-	871,729,211	2,335,745,251	90,955,868	10,859,767,046	15,501,891,002	2,511,704,770,696
Loan portfolio	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,066,896,424	5,066,896,424
Accounts and accrued interest receivable	486,382,651	-	21,836,986	78,815,251	9,209,886	-	197,887,490	-	-	495,456	-	-	306,279	67,864,474,048	90,573,031,730	159,232,439,777
Assets held for sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-	69,153,673	69,153,673
Investments in other companies	-	-	-	4,595,000,000	24,036,235	-	-	25,170,000	-	-	-	-	460,000	-	-	4,644,666,235
Property and equipment	7,175,334,166	-	-	118,911,905,010	1,069,780,959	-	1,544,041,161	-	-	283,559,514	-	-	337,565,998	30,333,798,222	401,589,644	160,057,574,674
Other assets	83,153,896	-	-	2,054,819,568	3,343,867	-	-	-	4,993,265,900	-	-	-	29,015	16,106,423,566	1,111,069,183	24,352,104,995
¢	9,482,519,825	223,508,994	682,990,452	2,602,270,115,124	3,957,600,160	802,686	1,741,928,651	27,062,382	4,993,265,900	284,054,970	871,895,528	2,563,991,043	429,317,160	125,171,107,808	112,839,134,946	2,865,539,295,629

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2022, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Rentier management and investment	Premium protection	Guaranty and custody of stock	Total	Nature of trust
<i>Trust assets</i>															
Cash and due from banks	¢ 457,418,164	7,006,259	17,831,456	1,203,980	8,738	-	-	38,035	-	26,992,654	5,593	-	6,019,900	-	516,524,779
Investments in financial instruments	164,263,111,120	10,025,137,476	583,185,836	2,748,159,222,037	3,596,855,860	-	2,588,698	62,100,897	-	35,087,081	619,851	108,698,902	27,206,716	604,776	2,926,864,419,250
Loan portfolio	3,897,648,287	-	979,913,152	-	-	-	-	-	-	-	-	-	-	-	4,877,561,439
Accounts and accrued interest receivable	144,708,190,437	29,141,446,846	2,094,588,836	81,263,368	9,479,903	-	-	207,247,468	-	-	244,221	-	-	-	176,242,461,079
Assets held for sale	48,920,810	-	3,213,881	-	-	-	-	-	-	-	-	-	-	-	52,134,691
Investments in other companies	-	-	-	4,595,000,000	24,302,199	164,000	-	-	25,206,000	-	2,740,000	-	-	-	4,647,412,199
Property and equipment	712,952,407	29,574,355,173	1,505,520	122,871,300,086	1,069,780,959	-	-	8,719,375,327	-	-	1,549,346,718	-	-	-	164,498,616,190
Other assets	23,881,926,228	3,517,659,752	334,480	-	4,581,665	-	-	-	-	5,204,698,377	-	-	-	-	32,609,200,502
¢	337,970,167,453	72,265,605,506	3,680,573,161	2,875,707,989,471	4,705,009,324	164,000	2,588,698	8,988,761,727	25,206,000	5,266,778,112	1,552,956,383	108,698,902	33,226,616	604,776	3,310,308,330,129

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2022, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Rentier management and investment	Premium protection	Guaranty and custody of stock	Total
<i>Trust assets</i>														
Cash and due from banks	971,739,606	7,088,822	12,584,706	-	6,359	-	-	16,313	-	19,548,239,482	-	3,163,600	5,593	20,542,844,481
Investments in financial instruments	170,421,572,517	8,348,802,148	420,138,960	2,828,002,388,610	3,765,137,615	-	2,556,934	64,927,588	-	38,295,400	37,970,141	-	647,823	3,011,102,437,736
Loan portfolio	3,861,620,594	-	1,027,242,527	-	-	-	-	-	-	-	-	-	-	4,888,863,121
Accounts and accrued interest receivable	148,019,094,092	29,544,193,829	2,050,145,723	82,385,699	9,257,136	-	-	269,168,359	-	-	-	-	238,578	179,974,483,416
Assets held for sale	64,582,195	-	4,112,596	-	-	-	-	-	-	-	-	-	-	68,694,791
Investments in other companies	-	-	-	4,595,000,000	24,305,272	164,000	-	-	25,206,000	578,017,515	-	-	2,740,000	5,225,432,787
Property and equipment	723,045,454	29,684,984,269	-	121,051,595,564	1,069,780,959	-	-	8,719,375,327	-	-	-	-	1,549,346,718	162,798,128,291
Other assets	25,018,106,557	2,196,239,826	1,262	-	2,757,342	-	-	728,546	-	5,308,095,586	-	-	594	32,525,929,713
	349,079,761,015	69,781,308,894	3,514,225,774	2,953,731,369,873	4,871,244,683	164,000	2,556,934	9,054,216,133	25,206,000	25,472,647,983	37,970,141	3,163,600	1,552,979,306	3,417,126,814,336

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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 2023	December 2022	September 2022
Pension Fund Manager's own investments in custody – Face value of principal	¢ 12,612,717,947	11,909,502,397	11,763,587,197
Pension Fund Manager's own investments in custody – Coupons	7,511,205,556	8,258,756,860	3,341,473,151
Pension Fund Manager's own investments in custody – Number of shares	23	23	23
Guarantees received in the Bank's custody	1,658,794,484	1,537,758,245	1,526,649,028
Guarantees on financial instruments	493,742,424	8,673,472	-
Other guarantees received in the Bank's custody	9,573,319,921,123	16,272,001,230,419	16,591,011,310,855
Lines of credit granted but unused	417,260,476,069	385,726,062,498	388,273,114,840
Loans pending disbursement	141,198,523,014	160,078,072,925	146,032,484,119
Unused overdrafts	55,000,000	53,979,253	55,000,000
Loans settled	457,368,670,906	457,054,589,644	458,859,576,767
Other accounts receivable settled	24,991,896,671	24,011,040,515	23,116,297,505
Accrued interest receivable settled	43,084,212,873	41,915,053,706	41,616,482,099
Interest income on non-accrual loans of loan portfolio	37,679,778,707	37,366,216,301	36,451,652,996
Supporting documentation received in the Bank's custody	4,840	9,003,537	9,003,455
Securities issued pending placement	97,233,000,000	97,233,000,000	103,481,000,000
Lines of credit or overdrafts obtained but unused	2,009,949,100	6,019,899,998	6,327,200,001
Notified letters of credit	5,252,625,420	5,706,280,400	5,383,504,347
Notional value subject to interest rate futures (Note 11)	105,521,785,400	110,383,294,360	118,042,774,080
Reversals made to income accounts for the period	23,108,862,420	39,818,861,196	27,200,712,615
Reversals made to expense accounts for the period	101,585,479,735	191,552,930,770	83,930,816,921
Non-deductible expenses	40,867,557,589	40,867,557,589	23,231,315,038
Non-taxable income	45,834,899,311	45,834,899,311	28,031,902,872
Other memoranda accounts	144,221,643,966	222,845,085,807	239,269,397,237
	<u>11,282,870,747,578</u>	<u>18,160,191,749,226</u>	<u>18,336,955,255,146</u>
Third-party debit memoranda accounts (1)	4,910,066,253,572	4,722,010,921,517	4,803,573,087,121
Own debit memoranda accounts for custodial activities	834,934,193,211	527,864,839,532	584,143,060,063
Third-party debit memoranda accounts for custodial activities	17,144,297,705,874	16,084,024,046,419	16,158,203,210,828
	<u>22,889,298,152,657</u>	<u>21,333,899,807,468</u>	<u>21,545,919,358,012</u>
¢	<u>34,172,168,900,235</u>	<u>39,494,091,556,694</u>	<u>39,882,874,613,158</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September 2023	December 2022	September 2022
Management of banking mandates	¢ 1,743,779,347,612	1,811,845,820,166	1,871,332,563,647
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	943,468,734	833,199,135	842,194,531
Pension funds (Note 32)	2,438,137,949,390	2,218,384,850,204	2,188,605,765,035
Investment funds (Note 31)	649,339,517,155	608,484,320,423	653,149,891,710
Portfolio management	77,865,970,681	82,462,731,589	89,642,672,198
	¢ <u>4,910,066,253,572</u>	<u>4,722,010,921,517</u>	<u>4,803,573,087,121</u>

Other memoranda accounts by entity are as follows:

	September 2023	December 2022	September 2022
Banco Nacional de Costa Rica	¢ 29,903,039,009,307	35,505,422,546,693	35,881,548,513,098
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,160,452,093,649	1,140,643,825,479	1,143,444,488,786
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	649,414,515,319	608,549,474,735	653,228,583,213
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	2,459,263,281,960	2,239,475,709,787	2,204,653,028,061
	¢ <u>34,172,168,900,235</u>	<u>39,494,091,556,694</u>	<u>39,882,874,613,158</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:

	September 2023	December 2022	September 2022
<i>Own</i>			
Futures contracts pending settlement	49,545,101,072	36,962,540,909	38,122,335,716
Own trading securities (Note 30-a)	7,774,138,415	3,972,147,106	4,053,014,768
Other own memoranda accounts	2,031,077,382	6,054,317,608	6,360,412,738
	<u>59,350,316,869</u>	<u>46,989,005,623</u>	<u>48,535,763,222</u>
<i>Third party</i>			
Trading securities received as guarantees	31,748,107,985	49,041,958,781	52,111,274,938
Trading securities pending receipt	2,545,274,598	-	3,431,821,426
Signed contracts pending settlement	3,763,206,572	4,302,906	5,553,540,025
Futures contracts pending settlement	56,665,452,589	79,075,858,326	87,254,966,521
Third-party trading securities (Note 30-a)	927,292,755,629	882,291,435,071	853,381,675,319
Cash and accounts receivable	1,221,008,725	778,533,183	3,532,775,137
Portfolio management	77,865,970,682	82,462,731,589	89,642,672,198
	<u>1,101,101,776,780</u>	<u>1,093,654,819,856</u>	<u>1,094,908,725,564</u>
Memoranda accounts (Note 29) ¢	<u>1,160,452,093,649</u>	<u>1,140,643,825,479</u>	<u>1,143,444,488,786</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 Central de Valores de la Bolsa Nacional de Valores, S.A. (CEVAL) or in foreign entities with which CEVAL has custody agreements.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Securities held in custody are as follows:

Location	Type of custody	September 2023	December 2022	September 2022
<u>Own custodial activities</u>				
Local	International custody - Vault	7,759,138,414	3,957,147,106	4,038,014,766
Local	Vault	15,000,001	15,000,000	15,000,002
		<u>7,774,138,415</u>	<u>3,972,147,106</u>	<u>4,053,014,768</u>
<u>Custodial activities on behalf of third parties</u>				
Local	CEVAL - private	124,904,316,671	146,511,305,137	143,619,257,453
Foreign	CEVAL - private	129,517,490,075	119,918,718,396	120,242,097,000
Local	CEVAL - public	557,407,557,316	557,325,800,650	530,278,206,770
Foreign	International custody	115,315,960,473	58,382,495,516	59,080,725,628
Local	Vault	8,161,723	8,024,829	8,024,829
Local - Foreign	Securities that are doubtful, in arrears or in litigation	139,269,371	145,090,543	153,363,639
		<u>927,292,755,629</u>	<u>882,291,435,071</u>	<u>853,381,675,319</u>
		<u>¢ 935,066,894,044</u>	<u>886,263,582,177</u>	<u>857,434,690,087</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

September 2023								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	41,670,079,217	14,520,184	7,875,021,855	49,545,101,072	-	-	-	-
Third parties	5,395,994,517	48,567,000	26,340,312,428	31,736,306,945	6,025,673,467	34,854,747	18,903,472,177	24,929,145,644
	<u>47,066,073,734</u>	<u>63,087,184</u>	<u>34,215,334,283</u>	<u>81,281,408,017</u>	<u>6,025,673,467</u>	<u>34,854,747</u>	<u>18,903,472,177</u>	<u>24,929,145,644</u>
December 2022								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	24,259,739,896	21,101,349	12,702,801,013	36,962,540,909	-	-	-	-
Third parties	6,076,255,439	59,010,598	35,523,790,106	41,600,045,545	10,440,999,005	44,909,075	27,034,813,776	37,475,812,781
	<u>30,335,995,335</u>	<u>80,111,947</u>	<u>48,226,591,119</u>	<u>78,562,586,454</u>	<u>10,440,999,005</u>	<u>44,909,075</u>	<u>27,034,813,776</u>	<u>37,475,812,781</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

September 2022								
Term buyer					Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	23,953,992,853	21,839,229	13,818,116,821	37,772,109,674	350,226,042	-	-	350,226,042
Third parties	8,595,097,849	61,475,126	38,896,541,785	47,491,639,634	10,988,806,068	45,477,495	28,774,520,819	39,763,326,887
	<u>32,549,090,702</u>	<u>83,314,355</u>	<u>52,714,658,606</u>	<u>85,263,749,308</u>	<u>11,339,032,110</u>	<u>45,477,495</u>	<u>28,774,520,819</u>	<u>40,113,552,929</u>

As of September 30, 2023, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢542.35 to US\$1.00 (December and September 2022: ¢601.99 to US\$1.00 and ¢632.72 to US\$1.00, respectively).

(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 2023			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
1 to 30 days	¢	41,670,079,217	14,520,184	-	-
		<u>41,670,079,217</u>	<u>14,520,184</u>	<u>-</u>	<u>-</u>
<u>Third parties</u>					
1 to 30 days		383,214,491	3,806,961	277,587,349	996,580
31 to 60 days		660,418,214	22,772,522	404,539,180	11,854,221
61 to 90 days		3,248,513,182	19,092,831	3,128,126,920	19,109,261
More than 91 days		1,103,848,630	2,894,686	2,215,420,018	2,894,685
		<u>5,395,994,517</u>	<u>48,567,000</u>	<u>6,025,673,467</u>	<u>34,854,747</u>
	¢	<u>47,066,073,734</u>	<u>63,087,184</u>	<u>6,025,673,467</u>	<u>34,854,747</u>
		December 2022			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<u>Own</u>					
1 to 30 days	¢	2,151,893,199	2,007,423	-	-
31 to 60 days		22,107,846,697	19,093,926	-	-
		<u>24,259,739,896</u>	<u>21,101,349</u>	<u>-</u>	<u>-</u>
<u>Third parties</u>					
1 to 30 days		185,858,208	3,067,189	615,785,861	2,516,090
31 to 60 days		2,617,053,355	18,784,558	4,144,534,629	16,743,872
61 to 90 days		483,709,847	32,997,292	2,891,044,484	21,331,803
More than 91 days		2,789,634,029	4,161,559	2,789,634,031	4,317,310
		<u>6,076,255,439</u>	<u>59,010,598</u>	<u>10,440,999,005</u>	<u>44,909,075</u>
	¢	<u>30,335,995,335</u>	<u>80,111,947</u>	<u>10,440,999,005</u>	<u>44,909,075</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		September 2022			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<i><u>Own</u></i>					
1 to 30 days	¢	9,857,366,353	20,736,861	350,226,042	-
31 to 60 days		12,383,273,028	1,102,368	-	-
61 to 90 days		1,713,353,472	-	-	-
		<u>23,953,992,853</u>	<u>21,839,229</u>	<u>350,226,042</u>	<u>-</u>
<i><u>Third parties</u></i>					
1 to 30 days		966,453,510	1,676,861	559,123,373	2,045,219
31 to 60 days		3,620,224,819	36,040,348	4,542,758,562	20,737,724
61 to 90 days		1,187,405,574	18,911,541	2,556,352,183	17,848,176
More than 91 days		2,821,013,946	4,846,376	3,330,571,950	4,846,376
		<u>8,595,097,849</u>	<u>61,475,126</u>	<u>10,988,806,068</u>	<u>45,477,495</u>
	¢	<u>32,549,090,702</u>	<u>83,314,355</u>	<u>11,339,032,110</u>	<u>45,477,495</u>

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

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

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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:

	September 2023		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 181,409,743,467	38,226,190,807	4.75
Fon Depósito colones	60,617,440,333	35,492,216,480	1.71
Creci Fondo colones	5,729,773,145	804,494,207	7.12
Redi Fondo colones	17,255,854,624	3,388,088,578	5.09
Diner Fondo colones	92,316,525,125	29,135,347,745	3.17
	¢ 357,329,336,694	107,046,337,817	
<i>Funds in US dollars:</i>			
Creci Fondo <i>US dollars</i>	15,740,301	6,721,209	2.34
Redi Fondo <i>US dollars</i>	31,578,072	16,552,121	1.91
Diner Fondo <i>US dollars</i>	92,707,658	66,125,778	1.40
Fon Depósito <i>US dollars</i>	45,379,226	38,907,201	1.17
Súper Fondo Plus <i>US dollars</i>	276,692,566	235,728,739	1.17
Fondo Internacional liquidez	32,194,239	21.750	1,480.19
BN internacional Valor	349.161	352.441	0.99
BN internacional Suma	3,572,547	3,558,697	1.00
BN internacional Crece	3,353,427	3,333,124	1.01
BN Infraestructura Pública -1	10,749,872	10,354,777	1.04
FI Desarrollo de Proyecto BN I	26,099,416	19.795	1,318.49
	US\$ 538,416,485	381,675,632	
	¢ 292,010,180,461	207,001,779,015	
Assets of managed funds	¢ 649,339,517,155	314,048,116,832	
<i>Guarantees:</i>			
Performance bonds	73,022,860		
Outstanding checks	1,975,304		
	74,998,164		
Memoranda accounts (Note 29)	¢ 649,414,515,319		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fund	December 2022		
	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 145,688,746,541	31,985,110,382	4.55
Fon Depósito colones	58,455,561,075	35,661,741,426	1.64
Creci Fondo colones	7,200,367,505	1,067,912,127	6.74
Redi Fondo colones	20,557,487,566	4,299,912,873	4.78
Diner Fondo colones	55,648,123,500	18,299,424,286	3.04
	¢ <u>287,550,286,187</u>	<u>91,314,101,094</u>	
<i>Funds in US dollars:</i>			
Creci Fondo <i>US dollars</i>	18,196,408	8,071,753	2.25
Redi Fondo <i>US dollars</i>	33,010,042	17,932,685	1.84
Diner Fondo <i>US dollars</i>	109,729,968	79,751,404	1.38
Fon Depósito <i>US dollars</i>	50,049,398	43,397,524	1.15
Súper Fondo Plus <i>US dollars</i>	258,807,536	225,370,381	1.15
Fondo Internacional liquidez	33,388,446	21,750	1,535.10
BN internacional Valor	335.391	344,617	0.97
BN internacional Suma	3,528,587	3,691,934	0.96
BN internacional Crece	2,900,771	3,082,536	0.94
BN Infraestructura Pública -1	3,477,300	3,434,918	1.01
FI Desarrollo de Proyecto BN I	19,698,023	19,795	995.10
	US\$ <u>533,121,870</u>	<u>385,119,297</u>	
	¢ <u>320,934,034,236</u>	<u>231,837,965,601</u>	
Assets of managed funds	¢ <u>608,484,320,423</u>	<u>323,152,066,695</u>	
<i>Guarantees:</i>			
Performance bonds	63,179,008		
Outstanding checks	1,975,304		
	<u>65,154,312</u>		
Memoranda accounts (Note 29)	¢ <u>608,549,474,735</u>		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	September 2022		
Fund	Net value	Shares	Value per share
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 151,703,210,672	33,686,836,542	4.50
Fon Depósito colones	55,239,649,762	34,049,073,679	1.62
Creci Fondo colones	9,381,138,790	1,409,173,620	6.66
Redi Fondo colones	27,564,339,163	5,848,060,187	4.71
Diner Fondo colones	55,287,753,223	18,373,547,743	3.01
	¢ 299,176,091,610	93,366,691,771	
<i>Funds in US dollars:</i>			
Creci Fondo <i>US dollars</i>	21,939,719	9,756,096	2.25
Redi Fondo <i>US dollars</i>	37,349,242	20,366,149	1.83
Diner Fondo <i>US dollars</i>	117,838,574	85,957,034	1.37
Fon Depósito <i>US dollars</i>	53,605,676	46,526,831	1.15
Súper Fondo Plus <i>US dollars</i>	267,062,865	233,768,359	1.14
Fondo Internacional liquidez	33,249,860	21,750	1,528.73
BN internacional Valor	337.705	351,731	0.96
BN internacional Suma	3,471,181	3,730,053	0.93
BN internacional Crece	2,831,157	3,116,675	0.91
BN Infraestructura Pública -1	1,968,637	1,957,784	1.01
FI Desarrollo de Proyecto BN I	19,793,166	19,795	999.91
	US\$ 559,447,782	405,572,257	
	¢ 353,973,800,100	256,613,678,449	
Assets of managed funds	¢ 653,149,891,710	349,980,370,220	
<i>Guarantees:</i>			
Performance bonds	76,716,199		
Outstanding checks	1,975,304		
	78,691,503		
Memoranda accounts (Note 29)	¢ 653,228,583,213		

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN Internacional Crece (US dollars)*: This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds
- *BN Fondo de Inversión de Desarrollo de Proyectos BNI*: (real estate development): This fund invests in the development and operation of several buildings that will be leased for a definite term. It is addressed to both local and foreign investors who wish to participate in a project development investment fund dedicated to the construction of eight buildings on land owned by the Bank. For the development of this project, the land was assigned to the fund through the assignment of usufruct rights, for subsequent leasing to the Bank or to third parties and, ultimately, sale of the buildings. Information on the main conditions of the agreement of assignment of usufruct rights and lease agreements, which were signed as of August 2018, is included in the prospectus. Furthermore, information is provided on the situations in which the usufruct rights may be revoked; conditions for use of the assets and limitations on their use, asset restrictions or commitments, administrative contract and appeals regimes applicable to the fund.

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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:

	September 2023	December 2022	September 2022
Mandatory Pension Fund (ROP)	¢ 2,035,070,079,134	1,846,946,571,652	1,803,874,072,171
Mandatory Retirement Savings Account (FCL)	104,507,311,266	95,069,302,597	93,613,662,821
BNCR employee Guarantee and Pension Fund	110,139,603,117	95,983,473,819	91,742,159,564
Voluntary Pension Fund in Colones A (FPC A)	99,268,466,501	98,490,441,114	114,370,555,754
Voluntary Pension Fund in Colones B (FPC B)	45,542,947,634	38,120,721,096	39,306,966,322
Voluntary Pension Fund in US dollars A (FPD A) (i)	22,331,611,445	22,268,367,548	23,768,403,267
Voluntary Pension Fund in US dollars B (FPD B) (ii)	14,966,123,964	14,975,399,413	15,362,400,929
ICT employee pension fund	6,311,806,329	6,530,572,965	6,567,544,207
Assets of managed funds (Note 29)	<u>2,438,137,949,390</u>	<u>2,218,384,850,204</u>	<u>2,188,605,765,035</u>
Securities and assets in own custody	20,123,923,526	20,168,259,281	15,105,060,372
Bid and performance bonds – colones	19,583,941	28,581,781	33,129,606
Bid and performance bonds – US dollars (iii)	38,356,369	60,819,387	66,878,517
Securities in DU	<u>943,468,733</u>	<u>833,199,134</u>	<u>842,194,531</u>
Memoranda accounts (Note 29)	¢ <u>2,459,263,281,959</u>	<u>2,239,475,709,787</u>	<u>2,204,653,028,061</u>

- i. As of September 30, 2023, this fund amounts to US\$41,175,646 (December and September 2022: US\$36,991,258 and US\$37,565,437, respectively) at the exchange rate of ¢542.35 to US\$1.00 (December and September 2022: ¢601.99 and ¢632.72, respectively).
- ii. As of September 30, 2023, this fund amounts to US\$27,594,955 (December and September 2022: US\$24,876,492 and US\$24,279,936, respectively) at the exchange rate of ¢542.35 to US\$1.00 (December and September 2022: ¢601.99 and ¢632.72, respectively).
- iii. As of September 30, 2023, this fund amounts to US\$70,723 (December and September 2022: US\$101,031 and US\$105,700, respectively) at the exchange rate of ¢542.35 to US\$1.00 (December and September 2022: ¢601.99 and ¢632.72, respectively).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Income from financial instruments

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

	September		Quarter from July 1 to September 30,	
	2023	2022	2023	2022
<u>Cash and due from banks:</u>				
Deposits in BCCR	¢ 103,022,390	27,281,547	36,616,022	17,913,026
Checking accounts and demand deposits in local entities	56,078,109	27,789,980	16,347,922	11,769,439
Checking accounts and demand deposits in foreign entities	10,722,027,461	3,016,174,363	3,630,218,700	2,090,607,587
	<u>10,881,127,960</u>	<u>3,071,245,890</u>	<u>3,683,182,644</u>	<u>2,120,290,052</u>
<u>Investments in financial instruments:</u>				
Investments at FVTPL	235,488,239	168,609,517	66,370,220	63,188,460
Investments FVOCI	30,793,204,545	20,732,018,587	11,588,437,853	6,903,590,644
Investments at amortized cost	32,333,917,666	15,886,294,752	11,223,450,650	6,090,918,527
Investments in past due and restricted securities	2,274,056,757	1,631,856,502	874,640,389	831,190,489
	<u>65,636,667,207</u>	<u>38,418,779,358</u>	<u>23,752,899,112</u>	<u>13,888,888,120</u>
¢	<u>76,517,795,167</u>	<u>41,490,025,248</u>	<u>27,436,081,756</u>	<u>16,009,178,172</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

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

	September		Quarter from July 1 to September 30,	
	2023	2022	2023	2022
<u>Current loans:</u>				
Individuals	¢ 150,776,654,010	102,409,559,739	52,827,231,356	38,939,806,049
Development Banking System	6,896,061,716	2,879,829,694	2,507,788,532	1,137,514,349
Business	61,356,533,451	31,937,480,101	21,181,477,194	12,477,042,524
Corporate	80,617,734,116	56,280,216,230	29,208,385,347	20,648,344,794
Public sector	12,114,623,071	9,640,177,542	4,124,106,009	3,493,411,912
Financial sector	5,758,737,599	2,670,576,439	1,777,280,356	869,694,999
	<u>317,520,343,963</u>	<u>205,817,839,745</u>	<u>111,626,268,794</u>	<u>77,565,814,627</u>
<u>Past due loans and loans in legal collection:</u>				
Individuals	20,109,334,466	8,507,342,812	5,096,918,039	3,075,552,677
Development Banking System	564,033,757	138,670,874	119,575,284	37,559,181
Business	9,970,022,445	2,243,402,051	1,663,377,307	909,264,850
Corporate	4,334,059,460	2,288,520,337	1,013,427,333	935,724,933
Public sector	120,210,943	25,250,394	16,240,422	7,281,291
Financial sector	3,153,608	1,065,779	5,154	563,248
In legal collection	5,143,042,562	65,287,412,080	1,112,892,779	19,719,858,004
Amortization of net commission of incremental costs directly related to loans	828,730,436	749,504,597	300,090,180	234,012,065
	<u>41,072,587,677</u>	<u>79,241,168,924</u>	<u>9,322,526,498</u>	<u>24,919,816,249</u>
¢	<u><u>358,592,931,640</u></u>	<u><u>285,059,008,669</u></u>	<u><u>120,948,795,292</u></u>	<u><u>102,485,630,876</u></u>

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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,	
	2023	2022	2023	2022
Fees and commissions on letters of credit	¢ 11,272,626	10,429,866	3,512,009	2,486,131
Fees and commissions on guarantees granted	326,674,210	268,136,799	76,064,399	85,493,777
Gain on sale of financial instruments	-	2.188	-	-
Gain on fair value hedge for item measured at cost	12,972,768	193,437,178	334.628	-
Other sundry finance income	1,747,111,890	8,911,381,334	-	970,788,537
Charges for overdue operations	391,065,234	291,663,313	104,830,628	97,556,362
Sundry finance income from late fees	1,081,244,743	405,128,537	358,792,616	143,736,903
Fees and commissions on letters of credit	586,444,171	1,369,576,907	188,556,061	457,867,385
¢	<u>4,156,785,642</u>	<u>11,449,756,122</u>	<u>732,090,341</u>	<u>1,757,929,095</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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,	
	2023	2022	2023	2022
Demand deposits	¢ 78,290,878,214	36,943,809,405	27,379,152,635	17,323,215,404
Term deposits	104,440,507,878	46,629,278,258	36,925,359,273	17,535,255,045
	¢ 182,731,386,092	83,573,087,663	64,304,511,908	34,858,470,449

(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,	
	2023	2022	2023	2022
Demand obligations	¢ 3,785,705,584	1,679,555,891	1,194,611,938	809,512,168
Term obligations	23,467,913,297	22,926,285,499	8,038,770,686	7,783,877,854
	¢ 27,253,618,881	24,605,841,390	9,233,382,624	8,593,390,022

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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	
	2023	2022	2023	2022
Fees and commissions on letters of credit obtained	¢ 185,832,120	213,825,867	60,839,331	59,664,971
Loss on financial instruments measured at amortized cost	-	59,890	-	-
Loss on hedged item measured at cost from fair value hedge on interest rate risk	4,861,720,580	5,747,840,135	1,994,046,393	167,304,171
Other sundry finance costs	276,567,115	842,967,525	90,139,375	501,826,866
	¢ 5,324,119,815	6,804,693,417	2,145,025,099	728,796,008

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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	
	2023	2022	2023	2022
Allowance for loan losses (Note 12)	¢ 19,933,770,784	33,527,515,925	4,457,658,132	6,787,265,561
Allowance for impairment of other accounts receivable (Note 13)	920,171,553	1,682,972,742	332,453,284	462,049,003
Allowance for stand-by credit losses (Note 24)	150,000,000	360,000,000	150,000,000	-
General and counter-cyclical allowance for loan portfolio (Note 12)	5,451,279,538	5,720,000,000	1,574,001,092	2,300,000,000
General and counter-cyclical allowance for stand-by credits (Note 12 and 24)	-	20,000,000	-	20,000,000
Allowance for impairment of investments at FVOCI	1,932,293,853	242,563,791	303,897,793	98,897,661
Allowance for impairment of financial instruments at amortized cost	713,692,585	406,512,382	630,419,407	49,253,261
Allowance for impairment of operations with derivative financial instruments (Note 10)	94,858,893	108,576,921	41,867,636	39,718,234
	<u>¢ 29,196,067,206</u>	<u>42,068,141,761</u>	<u>7,490,297,344</u>	<u>9,757,183,720</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	
	2023	2022	2023	2022
Recovery of loan write-offs	¢ 11,591,427,712	16,443,916,516	3,697,366,131	4,148,960,194
Recovery of accounts receivable write-offs	4,912,490	4,860,056	1,647,023	3,109,199
Decrease in allowance for loan losses (Note 6)	381,416,885	81,428	381,416,885	-
Decrease in allowance for impairment of other accounts receivable (Note 13)	231,228,283	579,691,757	37,115,155	49,094,205
Decrease in allowance for impairment of investments in financial instruments (Note 10)	1,741,851,796	1,585,401,725	666,444,473	473,071,970
	¢ <u>13,950,837,166</u>	<u>18,613,951,482</u>	<u>4,783,989,667</u>	<u>4,674,235,568</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	
	2023	2022	2023	2022
Drafts and transfers	¢ 9,119,382,343	8,625,261,050	2,981,103,990	2,914,004,298
Certified checks	1,115,650	1,374,655	250,701	409,077
Trusts	1,348,679,709	1,778,548,190	436,128,309	596,785,640
Custodial services	1,731,085,440	1,753,382,938	554,102,396	605,476,022
Banking mandates	105,129	392,302	-	185,932
Collections	12,395,729	15,265,980	3,161,426	4,816,469
Credit cards	48,481,295,979	49,341,326,712	15,040,489,497	16,372,189,577
Management services	2,562,594,066	3,520,859,120	804,124,037	1,077,124,802
Management of investment funds	5,129,473,313	5,465,379,242	1,799,415,926	1,748,442,618
Management of pension funds	8,619,554,586	7,804,817,519	2,808,062,240	2,508,411,764
Insurance underwriting	7,438,166,974	6,783,184,612	2,377,089,840	2,475,621,670
Brokerage operations (third parties in local market)	1,827,031,284	1,533,081,729	515,565,708	544,792,852
Brokerage operations (third parties in other markets)	572,123,817	535,472,741	266,887,801	241,100,636
Transactions with related parties	71,624,669	57,957,786	27,732,552	18,653,543
Commissions charged to other affiliates due to covenants	10,084,203,005	9,552,547,332	3,257,705,972	3,171,466,886
Servibanca local interchange	18,343,293,056	18,533,944,889	5,882,986,221	6,168,935,364
Other service fees and commissions	9,223,430,408	8,831,855,235	3,678,085,929	2,978,833,961
	¢ <u>124,565,555,157</u>	<u>124,134,652,032</u>	<u>40,432,892,545</u>	<u>41,427,251,111</u>

(Continued)

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 July 1 to September 30	
	2023	2022	2023	2022
Recovery of expenses (1) ¢	1,151,953,687	870,505,389	143,105,474	197,708,105
Net valuation of other assets (Note 6)	573,623,813	403,451,802	64,398,444	255,245,202
Other income from accounts receivable	1,473,140	997,055	713,456	443,505
Liquidation of check – own accounts	358,325,952	-	47,096,020	-
Savings accounts liquidation	125,135,565	131,304,072	41,266,729	41,945,193
PMEP administrative charges	178,000,366	178,268,856	62,440,436	64,307,068
Liquidation of term certificate of deposit not claimed	303,591,826	375,499,290	71,301,317	87,400,960
Penalties applied to vendors	173,285,075	246,235,760	66,989,773	63,767,416
Excess cash from human teller	132,440,258	154,980,197	40,982,827	51,250,034
Markup commission – credit cards	732,181,396	541,427,315	254,121,097	231,837,820
Other operating income	665,467,811	1,081,649,892	191,423,422	315,513,897
Decrease in provisions (2)	3,401,690,294	1,594,558,205	25,321,934	240,007,387
¢	<u>7,797,169,183</u>	<u>5,578,877,833</u>	<u>1,009,160,929</u>	<u>1,549,426,587</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.
- (2) During April 2022, the Bank liquidated the provision related to the payment of SEDI, which was processed under file number 15-008666-1027-CA of the Administrative Court, given that the ruling was in favor of the Bank.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Expenses for assets held for sale

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

	September		Quarter from July 1 to September 30	
	2023	2022	2023	2022
Property and other assets acquired in lieu of payment	¢ -	130,276,692	-	122,780,367
Loss on sale of assets awarded in judicial auctions	3,321,788,317	3,912,639,484	376,814,145	503,124,981
Management of assets received in lieu of payment	4,127,028	34,998,586	586.131	11,137,893
Management of assets awarded in judicial auctions	4,102,857,246	3,427,506,465	1,304,620,209	1,067,861,709
Loss on impairment of assets held for sale (Note 14)	186,985,589	26,670,454	177,322,222	20,345,192
Loss on allowance for impairment of assets held for sale and per legal requirement (Note 14)	4,254,750,424	5,314,769,397	2,417,443,647	1,395,774,289
Other expenses for assets held for sale	9,298,616	7,228,905	3,177,765	2,142,331
	¢ <u>11,879,807,220</u>	<u>12,854,089,983</u>	<u>4,279,964,119</u>	<u>3,123,166,762</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	
	2023	2022	2023	2022
Severance benefits	¢ 51,655,361	82,855,184	33,148,590	48,096,832
Pending litigation	4,617,044,356	414,784,604	2,251,714,065	94,587,829
“BN Premios” points program	2,544,850,685	2,720,698,999	513,521,503	1,153,915,867
Notice of deficiency	8,734,275,287	-	2,911,425,096	-
Guarantee deposit fund	1,102,831,216	1,068,295,966	359,981,155	343,186,856
Other provisions (operative)	-	3,200,549	-	-
	¢ <u>17,050,656,905</u>	<u>4,289,835,302</u>	<u>6,069,790,409</u>	<u>1,639,787,384</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	
	2023	2022	2023	2022
Penalties for noncompliance with regulatory legal provisions	¢ 25,412	594,181	4,620	-
Net valuation of other liabilities (Note 6-d)	244,101,741	241,151,408	48,707,065	89,667,753
Value-added tax expense	876,783,980	953,888,185	328,837,955	301,830,446
Income tax on foreign remittances	4,957,340	5,897,924	1,616,827	1,960,197
8% and 15% tax on income from interest on investments in financial instruments	286,999,496	379,818,050	107,892,864	128,861,236
Property tax	212,400,978	193,133,350	71,120,914	63,780,360
Patents	1,006,331,037	455,286,612	340,861,342	159,485,563
Other local taxes	62,805,697	29,720,797	14,756,615	11,884,744
Other foreign taxes	28,728	20,636	16,022	5,255
Transfer to FINADE	2,373,275,596	913,408,295	491,566,443	682,485,891
Costs of microfinance insurance policies	3,191,195,085	2,745,613,370	1,097,426,129	942,307,440
Amortization of deferred direct costs related to loans	452,500,073	321,381,245	162,372,693	121,168,795
Customer remittances	1,320,000,000	710,000,000	430,000,000	260,000,000
Authorization abroad	2,199,817,320	2,225,570,779	677,910,195	745,935,778
Base I and II fund disbursements	16,722,319,970	17,043,026,153	5,636,101,972	5,505,980,169
Life insurance unpaid balance	9,455,798,647	8,804,892,649	3,242,390,879	3,134,774,366
Software maintenance and licenses	10,445,931,044	7,753,662,052	4,933,265,591	2,875,951,260
Sundry operating expenses	4,503,389,956	4,724,696,101	1,399,606,231	1,939,976,485
Other expenses	-	843,597,538	-	843,597,538
	¢ 53,358,662,100	48,345,359,325	18,984,454,357	17,809,653,276

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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	
	2023	2022	2023	2022
Salaries and bonuses, permanent staff	¢ 59,424,114,158	56,034,797,029	19,860,878,239	19,796,865,487
Salaries and bonuses, contractors	1,578,853,554	723,937,624	381,630,188	297,160,048
Compensation for directors and statutory examiners	128,074,768	125,978,618	33,119,171	37,730,703
Overtime	476,474,340	394,197,302	164,320,947	144,662,033
Travel expenses	308,248,782	201,700,829	105,734,675	80,257,159
Statutory Christmas bonus	6,596,703,537	6,174,070,554	2,197,094,005	2,192,842,383
Vacation	5,224,233,495	4,863,345,086	1,659,117,979	1,754,349,538
Incentives	2,736,024,632	3,418,577,062	689,397,435	1,102,758,692
Other compensation	5,101,539,746	4,850,117,794	1,824,829,202	1,698,126,065
Severance benefits	3,840,076,648	3,601,903,571	1,260,372,119	1,264,214,766
Employer social security taxes	26,254,378,310	24,429,567,849	8,644,180,148	8,664,401,364
Refreshments	43,868,005	46,917,751	14,051,265	16,990,550
Uniforms	50,069,499	320,000	46,680,040	260,000
Training	396,004,094	468,178,772	168,031,808	236,013,287
Employee insurance	218,771,689	200,115,759	74,239,234	65,700,660
Back-to-school bonus	6,043,882,600	5,342,575,289	2,058,995,834	1,992,419,156
Mandatory retirement savings account	1,281,471,099	1,201,768,868	424,451,870	426,736,819
Other personnel expenses	433,003,614	462,537,356	147,414,816	112,252,795
¢	<u>120,135,792,570</u>	<u>112,540,607,113</u>	<u>39,754,538,975</u>	<u>39,883,741,505</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	
	2023	2022	2023	2022
Outsourcing	¢ 23,076,078,340	21,584,361,288	8,416,808,314	7,509,223,853
Transportation and communications	2,752,813,140	2,956,546,808	1,007,802,307	992,864,437
Infrastructure	20,259,903,982	19,898,421,983	7,351,751,131	7,233,665,895
Overhead	14,163,873,996	13,821,444,823	4,919,595,774	4,902,125,661
	¢ <u>60,252,669,458</u>	<u>58,260,774,902</u>	<u>21,695,957,526</u>	<u>20,637,879,846</u>

(48) Statutory allocations

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

	September		Quarter from July 1 to September 30	
	2023	2022	2023	2022
CONAPE 5%	¢ 3,384,930,977	3,493,710,096	842,510,067	1,143,467,335
CNE - 3%	2,193,518,885	2,255,734,350	560,284,067	728,463,173
INFOCOOP - 10%	4,381,471,689	4,674,891,243	1,070,946,346	1,540,610,891
Public capital pension operators	1,105,475,769	1,203,707,743	358,426,810	155,430,504
RIVM - 15%	9,019,556,031	5,252,738,606	2,133,750,305	1,736,770,846
	¢ <u>20,084,953,351</u>	<u>16,880,782,038</u>	<u>4,965,917,595</u>	<u>5,304,742,749</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	September		Quarter from July 1 to September 30	
	2023	2022	2023	2022
CNE - 3%	¢ -	2,845,775	-	2,845,775
Public capital pension operators	-	22,072,745	-	22,072,745
	¢ -	24,918,520	-	24,918,520

(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 2023			
	Carrying amount	Level	Fair value	Level
<u>Financial assets:</u>				
Cash and due from banks	¢ 1,461,741,211,689		1,461,741,211,689	
Investments at amortized cost	931,147,926,017		927,072,499,124	
Loan portfolio	5,001,098,238,685	(3)	4,684,742,377,946	(3)
	¢ <u>7,393,987,376,391</u>		<u>7,073,556,088,759</u>	
<u>Financial liabilities:</u>				
Demand deposits from the public and financial entities	¢ 4,617,549,158,586	(3)	4,617,549,158,586	(3)
Other demand obligations with the public	16,764,931,206		16,764,931,206	
Term deposits from the public and financial entities	2,727,079,480,165	(3)	2,702,299,768,673	(3)
	¢ <u>7,361,393,569,957</u>		<u>7,336,613,858,465</u>	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2022			
	Carrying amount	Level	Fair value	Level
<i><u>Financial assets:</u></i>				
Cash and due from banks	¢ 1,470,874,684,814		1,470,874,684,814	
Investments at amortized cost	840,653,764,943		820,095,244,824	
Loan portfolio	4,771,658,426,160	(3)	4,947,318,927,889	(3)
	¢ <u>7,083,186,875,917</u>		<u>7,238,288,857,527</u>	
<i><u>Financial liabilities:</u></i>				
Demand deposits from the public and financial entities	¢ 4,380,381,359,979	(3)	4,380,381,359,979	(3)
Other demand obligations with the public	16,272,444,040		16,272,444,040	
Term deposits from the public and financial entities	2,574,600,019,571	(3)	2,516,381,412,394	(3)
	¢ <u>6,971,253,823,590</u>		<u>6,913,035,216,413</u>	
	September 2022			
	Carrying amount	Level	Fair value	Level
<i><u>Financial assets:</u></i>				
Cash and due from banks	¢ 1,465,499,712,405		1,465,499,712,405	
Investments at amortized cost	927,102,440,644		901,799,808,915	
Loan portfolio	4,719,984,062,299	(3)	4,575,196,032,161	(3)
	¢ <u>7,112,586,215,348</u>		<u>6,942,495,553,481</u>	
<i><u>Financial liabilities:</u></i>				
Demand deposits from the public and financial entities	¢ 4,458,760,619,253	(3)	4,458,760,619,253	(3)
Other demand obligations with the public	16,950,112,792		16,950,112,792	
Term deposits from the public and financial entities	2,584,357,161,126	(3)	2,528,195,665,922	(3)
	¢ <u>7,060,067,893,171</u>		<u>7,003,906,397,967</u>	

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Fair value estimates*i. Valuation techniques and significant unobservable inputs*

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

- (a) Cash and due from banks, accrued interest receivable, demand deposits from the public and accrued interest payable.

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

- (b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of September 30, 2023 and 2022.

- (c) Term deposits

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

- (d) Obligations with entities

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		September 2023			
		Level 1	Level 2	Level 3	Total
FVTPL	¢	1,043,250,165	10,810,107,646	3,928,772,553	15,782,130,364
FVOCI		699,764,397,218	-	-	699,764,397,218
Derivative financial instruments		-	-	24,087,965	24,087,965
Term obligations with foreign financial entities	¢	-	-	96,585,739,855	96,585,739,855
		December 2022			
		Level 1	Level 2	Level 3	Total
FVTPL	¢	4,057,391,272	16,071,214,347	4,305,251,883	24,433,857,502
FVOCI		585,704,089,628	-	-	585,704,089,628
Derivative financial instruments		-	-	4,185,715	4,185,715
Term obligations with foreign financial entities	¢	-	-	103,761,660,525	103,761,660,525
		September 2022			
		Level 1	Level 2	Level 3	Total
FVTPL		4,141,955,617	18,376,353,265	4,525,023,624	27,043,332,506
FVOCI		644,433,515,301	-	-	644,433,515,301
Derivative financial instruments				51,863,280	51,863,280
Term obligations with foreign financial entities		-	-	108,888,176,236	108,888,176,236

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

ii. *Recurring Level 3 fair values*

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

	September 2023			September 2022		
	FVTPL	Derivative financial instruments	Term obligations with foreign financial entities	FVTPL	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 4,305,251,883	-	103,761,660,525	4,614,634,425	7,723,704,438	212,580,207,606
Valuation	52,730,347	-	3,127,381,619	563.532	(7,573,719,135)	(7,838,413,144)
Amortizations	-	-	5,171,963	-	-	(574,873,914)
Exchange differences	(429,209,677)	24,087,965	(10,308,474,254)	(90,174,333)	(149,985,303)	(95,278,744,312)
Closing balance	¢ 3,928,772,553	24,087,965	96,585,739,853	4,525,023,624	-	108,888,176,236

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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 the services provided by the Bank, the Brokerage Firm, the Investment Fund Manager, the Pension Fund Manager and the Insurance Brokerage Firm. Profit or loss, assets and liabilities of each segment are as follows:

As of September 30, 2023								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	€ 1,459,145,775,862	2,084,320,555	266,554,265	567,082,192	109,052,181	1,462,172,785,055	431,573,377	1,461,741,211,678
Investments in financial instruments	1,565,294,132,611	64,494,892,043	10,946,574,365	13,943,357,761	7,152,105,780	1,661,831,062,560	35,312,000	1,661,795,750,560
Loan portfolio, net	4,877,205,544,242	-	-	-	-	4,877,205,544,242	6,125,300,900	4,871,080,243,342
Fees and commissions receivable	502,165,506	39,791,781	45,846,198	807,667,023	614,660,684	2,010,131,192	51,005,579	1,959,125,613
Commissions receivable	-	11,000,000	-	-	-	11,000,000	-	11,000,000
Accounts receivable for brokerage operations	28,520,869	4,074,927	-	1,252,272	3,381,818	37,229,886	3,966,676	33,263,210
Accounts due from related parties	1,089,929,391	244,423,099	82,506,494	1,094,952,998	210,003,413	2,721,815,395	-	2,721,815,395
Deferred tax and income tax receivable	4,494,767,273	1,003,313	36,966,074	125,086,763	8,515,973	4,666,339,396	-	4,666,339,396
Other accounts receivable	1,464,034	-	-	-	-	1,464,034	-	1,464,034
Accrued interest	502,165,506	39,791,781	45,846,198	807,667,023	614,660,684	2,010,131,192	51,005,549	1,959,125,643
Allowance for impairment	(3,980,144,008)	-	(5,386,658)	(103,449,692)	-	(4,088,980,358)	-	(4,088,980,358)
Assets held for sale, net	37,649,089,247	-	-	-	-	37,649,089,247	-	37,649,089,247
Investments in other companies	117,249,034,550	30,000,000	-	-	-	117,279,034,550	48,802,564,498	68,476,470,052
Property, furniture and equipment, net	224,587,827,596	373,645,265	449,931,865	466,448,399	371,141,177	226,248,994,302	-	226,248,994,302
Other assets	51,726,733,722	1,624,684,601	1,119,689,608	1,009,926,153	1,159,514,236	56,640,548,320	-	56,640,548,320
TOTAL ASSETS	€ 8,334,994,840,895	68,907,835,584	12,942,682,211	17,912,323,869	9,628,375,262	8,444,386,057,821	55,449,723,006	8,388,936,334,815
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	€ 6,580,303,918,726	-	-	-	-	6,580,303,918,726	-	6,580,303,918,726
Obligations with BCCR	153,165,121,868	-	-	-	-	153,165,121,868	-	153,165,121,868
Obligations with entities	590,838,666,199	49,638,623,076	333,476,210	-	313,095,085	641,123,860,570	6,592,186,271	634,531,674,299
Accounts payable and provisions	155,519,700,617	2,773,702,917	1,626,204,191	3,697,771,075	2,205,779,883	165,823,158,683	54,972,244	165,768,186,439
Other liabilities	26,395,418,790	-	-	-	-	26,395,418,790	-	26,395,418,790
Subordinated obligations	59,801,509,375	-	-	-	-	59,801,509,375	-	59,801,509,375
TOTAL LIABILITIES	€ 7,566,024,335,575	52,412,325,993	1,959,680,401	3,697,771,075	2,518,874,968	7,626,612,988,012	6,647,158,521	7,619,965,829,491

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2023								
	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	7,303,344,756	369,700,000	191,510,074,858	19,273,044,756	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,591,580,252	-	1,591,580,252	1,591,580,252	-
Equity adjustments	72,965,092,990	953,583	85,033,038	1,381,190,552	-	74,432,270,163	1,467,177,172	72,965,092,991
Capital reserves	422,588,684,812	1,320,000,000	898,628,741	300,000,000	73,940,000	425,181,253,553	2,592,568,732	422,588,684,821
Prior year retained earnings	33,213,764,688	7,249,942,091	3,267,127,498	2,532,961,465	3,259,916,545	49,523,712,287	16,309,947,596	33,213,764,691
Income for the period	19,341,337,506	1,324,613,913	1,732,212,534	1,105,475,769	3,405,943,763	26,909,583,485	7,568,245,992	19,341,337,493
FOFIDE	48,624,595,226	-	-	-	-	48,624,595,226	-	48,624,595,226
TOTAL EQUITY	768,970,505,324	16,495,509,587	10,983,001,811	14,214,552,794	7,109,500,308	817,773,069,824	48,802,564,500	768,970,505,324
TOTAL LIABILITIES AND EQUITY	8,334,994,840,899	68,907,835,580	12,942,682,212	17,912,323,869	9,628,375,276	8,444,386,057,836	55,449,723,021	8,388,936,334,815
Debit memoranda accounts	438,051,791,691	100,188,094	-	36,146,884	-	438,188,126,669	-	438,188,126,669
Income from cash and due from banks and financial instruments	2,864,870,294,621	669,001,008	-	-	-	2,865,539,295,629	-	2,865,539,295,629
Trust liabilities	65,638,936,192	9,244,788	-	-	-	65,648,180,980	-	65,648,180,980
Trust equity	2,799,231,358,429	659,756,220	-	-	-	2,799,891,114,649	-	2,799,891,114,649
Other debit memoranda accounts	29,903,039,009,307	1,160,452,093,649	649,414,515,319	2,459,263,281,960	-	34,172,168,900,235	-	34,172,168,900,235

As of September 30, 2023								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	438,269,201,809	4,491,635,037	842,839,204	825,795,042	414,585,856	444,844,056,948	9,919,786	444,834,137,162
Finance costs	223,431,598,089	2,713,005,242	126,547,529	159,472,811	38,432,475	226,469,056,146	9,919,786	226,459,136,360
Allowance expense	29,012,165,403	91,936,387	9,682,760	68,852,321	13,430,335	29,196,067,206	-	29,196,067,206
Income from recovery of assets	13,894,835,325	2,110,720	28,355,568	17,470,935	8,064,618	13,950,837,166	-	13,950,837,166
FINANCE INCOME	199,720,273,642	1,688,804,128	734,964,483	614,940,845	370,787,664	203,129,770,762	-	203,129,770,762
Other operating income	148,330,201,610	3,931,903,148	5,143,304,126	8,663,109,827	7,288,995,128	173,357,513,839	9,382,629,579	163,974,884,260
Other operating expenses	112,320,201,884	779,945,895	452,702,875	1,644,299,878	117,035,484	115,314,186,016	1,715,289,164	113,598,896,852
GROSS OPERATING INCOME	235,730,273,368	4,840,761,381	5,425,565,734	7,633,750,794	7,542,747,308	261,173,098,585	7,667,340,415	253,505,758,170
Personnel expenses	109,560,448,607	2,527,804,299	2,201,839,482	3,704,884,159	2,140,816,023	120,135,792,570	-	120,135,792,570
Other administrative expenses	58,471,205,225	349,365,914	591,635,364	626,711,575	312,845,802	60,351,763,880	99,094,422	60,252,669,458
Total administrative expenses	168,031,653,832	2,877,170,213	2,793,474,846	4,331,595,734	2,453,661,825	180,487,556,450	99,094,422	180,388,462,028
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	67,698,619,535	1,963,591,167	2,632,090,889	3,302,155,060	5,089,085,484	80,685,542,135	7,568,245,993	73,117,296,142
Income tax	30,793,521,606	680,485,692	864,769,213	1,033,069,316	1,554,134,783	34,925,980,610	-	34,925,980,610
Decrease in income tax	1,026,109,490	100,416,174	43,853,585	40,930,447	23,665,629	1,234,975,325	-	1,234,975,325
Statutory allocations	18,589,869,913	58,907,735	78,962,727	1,204,540,421	152,672,555	20,084,953,351	-	20,084,953,351
INCOME FOR THE PERIOD	19,341,337,506	1,324,613,914	1,732,212,534	1,105,475,770	3,405,943,775	26,909,583,499	7,568,245,993	19,341,337,506

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	¢ 1,460,303,376,537	4,483,762,423	214,662,343	798,637,778	26,329,750	1,465,826,768,831	327,056,432	1,465,499,712,399
Investments in financial instruments	1,530,064,093,674	51,175,778,208	11,003,510,986	11,828,587,478	5,546,989,972	1,609,618,960,318	295,312,000	1,609,323,648,318
Loan portfolio, net	4,573,308,990,927	-	-	-	-	4,573,308,990,927	-	4,573,308,990,927
Fees and commissions receivable	774,362,881	28,769,558	34,578,064	733,337,703	920,809,665	2,491,857,871	54,196,491	2,437,661,380
Commissions receivable	-	130,512,093	-	-	-	130,512,093	-	130,512,093
Accounts receivable for brokerage operations	19,618,470	3,854,194	-	428,225	420,707	24,321,596	3,243,656	21,077,940
Accounts due from related parties	8,189,812,397	140,229,465	146,773,293	598,771,004	180,944,536	9,256,530,695	-	9,256,530,695
Deferred tax and income tax receivable	4,428,805,456	66,753,056	6,635,661	71,790,927	31,659,420	4,605,644,520	-	4,605,644,520
Other accounts receivable	1,947,372	-	-	-	-	1,947,372	-	1,947,372
Accrued interest	(4,351,787,295)	-	(6,469,307)	(59,694,264)	-	(4,417,950,866)	-	(4,417,950,866)
Allowance for impairment	38,682,611,322	-	-	-	-	38,682,611,322	-	38,682,611,322
Assets held for sale, net	119,672,145,863	30,000,000	-	-	-	119,702,145,863	43,290,252,192	76,411,893,671
Investments in other companies	204,161,969,686	473,633,297	202,419,451	326,991,504	113,114,396	205,278,128,334	-	205,278,128,334
Property, furniture and equipment, net	63,345,645,281	1,019,580,054	1,132,455,438	1,032,804,201	1,087,927,309	67,618,412,283	-	67,618,412,283
Other assets	¢ 7,998,601,592,571	57,552,872,348	12,734,565,929	15,331,654,556	7,908,195,755	8,092,128,881,159	43,970,060,771	8,048,158,820,388
TOTAL ASSETS								
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	¢ 6,257,090,068,935	-	-	-	-	6,257,090,068,935	-	6,257,090,068,935
Obligations with BCCR	166,625,500,558	-	-	-	-	166,625,500,558	-	166,625,500,558
Obligations with entities	604,813,652,599	37,991,006,005	-	-	-	642,804,658,604	622,269,533	642,182,389,071
Accounts payable and provisions	142,370,733,561	4,693,120,129	1,705,342,446	3,821,819,127	2,025,748,694	154,616,763,957	57,440,151	154,559,323,806
Other liabilities	26,823,210,744	-	-	-	-	26,823,210,744	98,900	26,823,111,844
Subordinated obligations	¢ 71,502,770,427	-	-	-	-	71,502,770,427	-	71,502,770,427
	¢ 7,269,225,936,824	42,684,126,134	1,705,342,446	3,821,819,127	2,025,748,694	7,319,462,973,225	679,808,584	7,318,783,164,641

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of September 30, 2022								
	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	6,970,642,819	369,700,000	191,177,372,921	18,940,342,819	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,924,282,190	-	1,924,282,190	1,924,282,190	-
Equity adjustments	65,989,994,282	(3,030,517)	(120,190,856)	(564,653,473)	-	65,302,119,436	(687,874,846)	65,989,994,282
Capital reserves	386,130,513,869	1,320,000,000	764,036,859	300,000,000	73,940,000	388,588,490,728	2,457,976,868	386,130,513,860
Prior year retained earnings	34,447,976,901	6,230,988,961	3,273,881,730	1,697,928,896	2,396,961,765	48,047,738,253	13,599,761,351	34,447,976,902
Income for the period	26,133,544,925	720,787,771	2,111,495,748	1,181,634,998	3,041,845,303	33,189,308,745	7,055,763,814	26,133,544,931
FOFIDE	44,436,595,670	-	-	-	-	44,436,595,670	-	44,436,595,670
TOTAL EQUITY	729,375,655,749	14,868,746,215	11,029,223,481	11,509,835,430	5,882,447,068	772,665,907,943	43,290,252,196	729,375,655,747
TOTAL LIABILITIES AND EQUITY	7,998,601,592,573	57,552,872,349	12,734,565,927	15,331,654,557	7,908,195,762	8,092,128,881,168	43,970,060,780	8,048,158,820,388
Debit memoranda accounts	515,646,012,277	99,816,563	-	36,146,883	3,500,000	515,785,475,723	-	515,785,475,723
Income from cash and due from banks and financial instruments	3,416,691,351,158	435,463,178	-	-	-	3,417,126,814,336	-	3,417,126,814,336
Trust liabilities	88,627,161,640	9,694,192	-	-	-	88,636,855,832	-	88,636,855,832
Trust equity	3,328,064,189,518	425,768,986	-	-	-	3,328,489,958,504	-	3,328,489,958,504
Other debit memoranda accounts	35,881,548,513,098	1,143,444,488,786	653,228,583,213	2,204,653,028,061	-	39,882,874,613,158	-	39,882,874,613,158

As of September 30, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	336,858,888,116	1,553,024,286	755,737,295	1,641,322,386	101,305,812	340,910,277,895	68,572,588	340,841,705,307
Finance costs	128,417,593,001	855,774,783	91,049,857	41,229,795	4,686,407	129,410,333,843	68,572,590	129,341,761,253
Allowance expense	42,649,887,575	96,205,688	11,870,518	145,312,230	8,463,288	42,911,739,299	843,597,538	42,068,141,761
Income from recovery of assets	18,452,201,500	25,032,616	16,719,500	107,604,569	12,393,297	18,613,951,482	-	18,613,951,482
FINANCE INCOME	184,243,609,040	626,076,431	669,536,420	1,562,384,930	100,549,414	187,202,156,235	(843,597,540)	188,045,753,775
Other operating income	139,659,772,683	3,740,073,136	5,478,017,069	7,831,540,888	6,907,220,653	163,616,624,429	9,220,826,012	154,395,798,417
Other operating expenses	94,842,767,963	661,362,465	583,734,934	1,524,865,625	145,959,700	97,758,690,687	1,214,806,325	96,543,884,362
GROSS OPERATING INCOME	229,060,613,760	3,704,787,102	5,563,818,555	7,869,060,193	6,861,810,367	253,060,089,977	7,162,422,147	245,897,667,830
Personnel expenses	102,589,539,734	2,320,108,493	1,993,150,666	3,618,482,576	2,019,325,644	112,540,607,113	-	112,540,607,113
Other administrative expenses	56,596,872,101	339,550,831	417,454,588	732,255,488	281,300,220	58,367,433,228	106,658,326	58,260,774,902
Total administrative expenses	159,186,411,835	2,659,659,324	2,410,605,254	4,350,738,064	2,300,625,864	170,908,040,341	106,658,326	170,801,382,015
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	69,874,201,923	1,045,127,776	3,153,213,302	3,518,322,130	4,561,184,505	82,152,049,636	7,055,763,821	75,096,285,815
Income tax	29,718,719,785	348,287,380	986,762,522	1,150,034,446	1,404,446,967	33,608,251,100	-	33,608,251,100
Decrease in income tax	1,283,955,874	55,301,208	39,641,367	100,531,976	21,943,301	1,501,373,726	-	1,501,373,726
Statutory allocations	15,305,893,089	31,353,833	94,596,399	1,312,103,182	136,835,535	16,880,782,038	-	16,880,782,038
INCOME FOR THE PERIOD	26,133,544,923	720,787,771	2,111,495,748	1,181,634,998	3,041,845,303	33,189,308,745	7,055,763,820	26,133,544,923

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Contingencies

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

	Number of cases		Stage		Total estimated amount	
	September 2023	September 2022			September 2023	September 2022
Banco Nacional de Costa Rica	253	316	First instance	¢	49,922,528,089	79,578,788,428
	21	18	Second instance		18,565,962,000	31,245,842,897
	56	58	Appeal		14,998,204,890	49,269,129,475
	<u>330</u>	<u>392</u>			<u>83,486,694,979</u>	<u>160,093,760,800</u>
BN Vital	7	7	First instance		36,146,884	36,146,883
	2	2	Appeal		-	-
	9	9			36,146,884	36,146,883
BN Valores BN Corredora	1	1	First instance		100,188,094	99,816,563
	-	1	First instance		-	3,500,000
	<u>340</u>	<u>403</u>	(Note 27)	¢	<u>83,623,029,957</u>	<u>160,233,224,246</u>

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

The entities in the Conglomerate are claimants in ordinary, labor and criminal lawsuits for which the outcome is uncertain. These are not booked in the accounting records.

Number of cases		Stage		Total estimated amount	
September 2023	September 2022			September 2023	September 2022
267	296	First instance	¢	71,575,756,220	75,027,097,732
1	1	Second instance		375,839,600	375,839,600
2	2	Appeal		2,844,233,566	2,844,233,566
<u>270</u>	<u>299</u>		¢	<u>74,795,829,386</u>	<u>78,247,170,898</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the Bank was a defendant in one lawsuit related to the payment of SEDI, the file for such proceedings is File No. 15-008666-1027-CA of the Administrative Court of November 20, 2015, received on December 15, 2015. As of June 30, 2023, the Bank settled the provision since the sentence for that lawsuit was in favor of the Bank.

The following lawsuits are also worth noting:

- File No.: 08-000232-0419-AG.
 - ✓ Statement of the facts: These proceedings were filed by the Bank against Surcoop R.L., seeking to nullify the auction, awarding and registration of lots processed through file No. 97-010656-1701 AG of the Agrarian Court of Corredores.
 - ✓ Current status: The judgment was in favor of the Bank.
 - ✓ Latest activity: Through Vote 1859-F-S1-2021, the First Chamber confirmed the appealed ruling. The proceedings are currently in the execution of judgment stage.
- File No.: 11-001042-0612-PE.
 - ✓ Court: Office of Economic, Tax, and Customs Crimes
 - ✓ Statement of the facts: Irregularities were reported regarding Zion company 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 alleged participation of some of the employees of the Bank in the facts.
 - ✓ Latest activity: The order of November 2, 2021, at 15:01, set the date for the preliminary hearing from September 2 to November 29, 2024.
 - ✓ Current status: A “request for accusation and order to proceed to trial” was filed in this case. The Bank filed a complaint and a civil lawsuit. Civil lawsuits have been filed against the Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 14-003379-1027-CA
 - ✓ Statement of the facts: The plaintiffs seek the payment of damages by the Bank to all plaintiffs and 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.
 - ✓ On November 15, 2021, a hearing for the correction of procedural errors was held, in which the Court made a series of findings and reviewed the new evidence filed by the plaintiff. The Court decided to suspend the hearing and return the proceedings to the processing stage so that the corresponding corrections can be made and to include the legal entity PROSUM. The payment of fees to the expert witness was processed, but it is premature due to the status of the proceedings.
 - ✓ Current status: The proceedings have been returned to the preliminary hearing phase.
- File No.: 15-010837-1027-CA (joined with 13-003698-1027-CA)
 - ✓ Court: Contentious Administrative Court.
 - ✓ Statement of the facts: Caja Costarricense del Seguro Social (CCSS, Costa Rican Social Security) made an administrative charge to the Bank based on Article 78 of the *Employee Protection Law*, and Executive Decree No. 37127-MTSS. However, it used as taxable base for the parafiscal contribution the gross profit of the Bank and its consolidated financial statements, not the individual financial statements, ignoring the statutory allocation established in the Internal Regulations of the National Banking System (IRNBS).
 - ✓ Latest activity: An extraordinary appeal for review by a higher court was filed in due time and form. A resolution by the First Chamber of the Supreme Court of Justice is pending.
 - ✓ Current status: Through judgment N°80-2022-VIII of Contentious Administrative Court of the Second Judicial Circuit of San José, at 13:20 of August 30, 2022, the complaint was partially admitted, ordering CCSS to return the excess amounts related to Article 78 of the Employee Protection Law, corresponding to the difference between the calculation made based on the consolidated financial statements of the State-owned commercial banks and the individual financial statements thereof, along with the legal interest derived from the reimbursement under protest, to be calculated from the date when this ruling

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

becomes final to the date when the payment is made. Notwithstanding the foregoing, the Court set the taxable base as the net profit before income tax and statutory allocations, which were sufficient grounds to file an extraordinary appeal for review by a higher court to take up the matter of the taxable base for the calculation, since it considered that the Court made a mistake in this regard.

- File No.: 18-011428-1027-CA
 - ✓ Court: Contentious Administrative Court
 - ✓ Statement of the facts: The Bank filed ordinary administrative proceedings against ICE for the termination of the contract for the construction of Capulín San Pablo Hydroelectric Project, in which the Bank is a creditor of the developer, Hidrotárcoles S.A. The Bank claims that due to the termination of the contract with the company, ICE must recognize the contractor's debt with the Bank.
 - ✓ Latest activity: Awaiting the oral public trial, set for May 8 and 9, 2024.
 - ✓ Current status: The preliminary hearing was held, in which documentary and testimonial evidence submitted by the parties was admitted. The trial was set for May 8 and 9, 2024.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 19-007376-1027-CA
 - ✓ Court: First Associate Civil Court of San José
 - ✓ Statement of the facts: The Bank filed a lawsuit against Océánica de Seguros S.A. for the unjustified non-payment of US\$15,500,000.00 corresponding to the surety bonds that secured the contributions made by the contractor Hidrotárcoles S.A. for the construction of the dam and production of the electromechanic equipment of the Capulín San Pablo Hydroelectric Project.
 - ✓ Latest activity: The First Chamber of the Supreme Court of Justice resolved the lack of jurisdiction declared ex officio by the Contentious Administrative Court and forwarded the matter to the First Associate Civil Court of San José.
 - ✓ Current status: The First Chamber of the Supreme Court of Justice resolved the lack of jurisdiction declared ex officio by the Contentious Administrative Court and forwarded the matter to the First Associate Civil Court of San José. The latter has not yet served the lawsuit to the defendant.
- File No.: 23-000226-1027-CA
 - ✓ Court: Contentious Administrative Court.
 - ✓ Statement of the facts: The plaintiff claims damages and administrative liability of the Bank for remitting its operation to legal collection without accepting the proposed payment in kind and omitting the insurance policy for disability, old age and death.
 - ✓ Latest activity: The answer to the complaint was filed in due time and form. Awaiting the preliminary hearing to be set.
 - ✓ Current status: The answer to the complaint was filed in due time and form. Awaiting the preliminary hearing to be set.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Emergency caused by COVID-19

In December 2019 the appearance of a new strain of coronavirus was identified, causing the COVID-19 global pandemic during the first quarter of 2020. The coronavirus has negatively affected the economic conditions of companies worldwide, generating a macroeconomic uncertainty that may significantly affect our operations as well as those of our customers and vendors.

The general effect of the coronavirus outbreak is uncertain at this time, Consequently, we are still in the process of analyzing and forecasting the potential impact on our operations. The Bank's management will continue to monitor and modify its operating and financial strategies to mitigate the potential risks to our business.

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

As a result, as of September 30, 2023, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,377,042,576,021 representing 27.82% of the total loan portfolio (September 30, 2022: ¢1,702,304,383,116 representing 36.63% 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 2023	December 2022	September 2022
Agriculture and forestry	¢ 30,326,059,893	38,043,804,589	40,681,929,113
Trade	107,917,327,701	139,906,885,549	148,362,683,488
Construction	26,803,441,311	39,084,698,917	42,594,590,092
Consumer or personal loans	84,474,107,759	104,770,214,017	113,011,466,764
Electricity, water, sanitation and other related sectors	142,524,842,937	24,834,021,726	151,444,788,642
Mining	266,906,634	56,579,482,565	280,875,579
Livestock, hunting and fishing	20,997,375,114	428,764,218,666	26,545,267,784
Industry	45,161,942,350	28,010,476,880	63,442,840,489
Services	370,094,929,215	30,690,792,689	462,422,899,091
Financial services	24,266,426,263	103,169,667,550	29,759,419,694
Transportation, communication and storage	17,070,888,717	454,735,064,809	34,704,193,495
Tourism	86,363,406,371	149,277,954,802	120,030,203,523
Housing	420,774,921,756	279,119,435	469,023,225,362
	1,377,042,576,021	1,598,146,402,194	1,702,304,383,116
Accounts and accrued interest receivable	2,363,887,390	2,433,088,971	2,639,069,138
Loans restructured due to COVID-19	1,379,406,463,411	1,600,579,491,165	1,704,943,452,254
Allowance for doubtful accounts	(37,589,815,598)	(46,291,100,287)	(47,047,440,716)
	¢ 1,341,816,647,813	1,554,288,390,878	1,657,896,011,538

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

	September 2023	December 2022	September 2022
Current	¢ 1,212,906,083,316	1,440,921,652,002	1,539,381,498,150
1 to 30 days	75,690,447,047	35,576,424,249	63,274,678,721
31 to 60 days	19,494,189,469	45,012,045,725	32,512,577,462
61 to 90 days	29,597,377,631	20,576,319,470	17,955,356,813
91 to 120 days	4,269,091,639	3,188,010,948	5,795,542,801
121 to 150 days	2,306,577,334	16,256,314,729	2,578,443,053
In legal collection	32,778,809,585	36,615,635,071	40,806,286,116
	1,377,042,576,021	1,598,146,402,194	1,702,304,383,116
Accounts and accrued interest receivable	2,363,887,390	2,433,088,971	2,639,069,138
Total loans restructured due to COVID-19	1,379,406,463,411	1,600,579,491,165	1,704,943,452,254
Allowance for loan losses	(37,589,815,598)	(46,291,100,287)	(47,047,440,716)
Loan portfolio, net	¢ 1,341,816,647,813	1,554,288,390,878	1,657,896,011,538

(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 guarantee, is as follows:

	September 2023	December 2022	September 2022
Collateral	¢ 24,293,996,227	35,686,788,099	40,975,668,451
Surety	10,556,918,075	15,149,890,641	16,412,860,885
Assignment of loans	41,261,310,845	49,919,949,933	57,949,872,276
Back-to-back	2,164,037,282	2,664,853,940	2,791,658,712
Mortgage	614,545,377,857	682,199,540,249	709,908,190,145
Trust	110,462,635,361	146,715,324,573	165,058,724,922
Surety - Mortgage	131,656,505,472	154,986,406,086	164,464,169,440
Surety - Trust	151,241,492,740	197,714,226,031	210,359,590,253
Other	238,453,048,746	252,800,353,245	269,490,012,386
Not assigned	2,415,187,707	2,809,295,736	2,825,308,383
Surety - Collateral	2,819,553,004	5,387,269,340	7,311,176,140
Collateral - Mortgage	644,568,888	858,234,889	1,000,524,036
Collateral - Securities	-	8,207,802	8,786,469
Surety - Collateral - Mortgage	2,134,061,536	2,412,966,802	2,941,114,816
Securities	22,362,736,255	25,868,924,298	27,543,669,049
Mortgage - Trust	91,476,042	93,013,458	177,592,244
Surety - Securities	26,497,091	48,426,591	57,364,285
Collateral - Trust	21,913,172,893	22,822,730,481	23,028,100,224
	1,377,042,576,021	1,598,146,402,194	1,702,304,383,116
Accounts and accrued interest receivable	2,363,887,390	2,433,088,971	2,639,069,138
Loans restructured due to COVID-19	1,379,406,463,411	1,600,579,491,165	1,704,943,452,254
Allowance for loan losses	(37,589,815,598)	(46,291,100,287)	(47,047,440,716)
Loan portfolio, net	¢ 1,341,816,647,813	1,554,288,390,878	1,657,896,011,538

As of September 30, 2023, ¢1,377,042,576,021 maintain temporary credit conditions, which represents 27.82% of the total loan portfolio (December and September 2022: ¢1,598,146,402,194 and ¢1,702,304,383,117, representing 33.96% and 36.63%, respectively).

(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.
- As of the date of this report, the Bank has 3,296 employees working from home, representing 57% of total employees. All positions that permit work from home have been implemented.
- Some of the auto banks that were not in operation were activated once again.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

b) Measures to support customers with credits

The Bank offered the Covid-19 related benefit to 60,591 customers, corresponding to 85,764 operations, with a principal balance amounting to 1,996 billion colones, representing 44% of the total principal as of December 2021.

As of September 30, 2023, there are no active extensions as a result of loan restructuring due to COVID-19.

The Bank is currently taking the following steps related to COVID-19:

- Maintaining the plan to restructure the portfolio of repeat customers due to changes in market conditions.
- Recovering the extended balances of principal and interest or balances of unpaid operations, through a medium-term plan.
- Maintaining a more personalized attention through the archetypes and segments so as to provide customers with better advisory if needed.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) 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.

b) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bond 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, 2023, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(53) Relevant Events

a) Tax audit process – Costa Rican Tax Administration Fiscal Year 2017

As of December 31, 2021, Banco Nacional de Costa Rica is in a verification and investigation process by the National Large Taxpayer Audit Area of the Costa Rican Tax Administration, in order to perform a review of the income tax for fiscal year 2017.

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

On December 31, 2022, the Bank received a notice from the tax auditors to attend the final hearing to deliver results through the document DGCN-SF-PD-25-2021-26-331-03. It took place on October 10, 2022.

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Through Official Letter DGCN-SF-PD-25-2021-07-41-03, on October 28, 2022, a notice of deficiency and observations is communicated, which was challenged by the Bank on November 11, 2022. Through Official Letter DCGN-SF-PS-25-2021-24-5138-03, on November 24, 2022, a sanctioning notice of deficiency is communicated due to Article 81 of the Tax Code of Standards and Procedures, which was challenged by the Bank on December 7, 2022.

On December 21, 2022, through Official Letter DGCN-373-DF-DT-UT-2022, the Tax Administration communicates the determination resolution for the 2017 fiscal period. The Tax Administration was aware of the challenge filed by the Bank; therefore, the Bank has 30 business days to file the motion for reconsideration before the Tax Administration and 30 days after that, before the Tax Court.

On February 1, 2023, through Official Communication GG-063-23, the Bank filed a motion for reconsideration against resolution DGCN-373-DF-DT-UT-2022. A response was received on July 3, 2023, from the Ministry of Finance through communication MH-DGT-DGCN-DF-REV-0175-2023, indicating that the Bank has 30 business days as of that date to file the appeal before the Administrative Tax Court.

Through resolution no. MH-DGT-DGCN-DF-REV-0175-2023, notified on July 3, 2023, the Tax Administration heard the motion for reconsideration of resolution DGCN-373-DF-DT-UT-2022; it rejected the remedy filed.

On August 11, 2023, resolution MH-DGT-DGCN-DF-REV-0175-2023 was appealed before the Administrative Tax Court.

Through resolution DGCN-373-DF-DT-UT-2022, issued at 8:55 of December 15, 2022, the National Large Taxpayer Division summoned the Bank before the Administrative Tax Court to present its damages regarding the appeal filed. Consequently, on October 3, the writ with the response was submitted before said court.

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b) Deferred term operations

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

As of September 30, 2023, 2,887 loan operations were placed under this modality, applying a discount to the interest rate on the loans in colones in the amount of ₡147,299,958,831, reaching an average rate of the operations already processed of 6.02%, The remaining average maturity term is 11.2 years.

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

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

Pursuant to Article of the *Regulation of the management of the Deposit Guarantee Fund and other guarantee funds*, entities that contribute to the DGF shall make an annual contribution that may not exceed 0.15% of the deposits guaranteed by the entity.

d) Treatment of foreign exchange differences as per ruling DGT-R-09-2022

The Bank filed a consultation before the Costa Rican Tax Administration pursuant to Article 119 of the Tax Code of Standards and Procedures, in relation to the treatment of the exchange differences provided through Ruling DGT-R-09-2022. That consultation was served and communicated via e-mail according to Official Letter MH-DGT-OF-119-0001-2023, dated January 31, 2023. The answer reads as follows:

“In accordance with the above, considering that the consulting party is an entity regulated by the Superintendency General of Financial Entities (SUGEF), for purposes of calculation of exchange differences, the calculation is made according to the regulation on the position in foreign currency of foreign exchange intermediaries set forth in Article 4 of the Cash Operations Regulations, issued by the Board of Directors of the Central Bank of Costa Rica and Number 4 of Ruling DGT-R-009-2022.” ... “Take into account that such ruling is applicable to the 2022 fiscal period, in accordance with Number 5 of the mentioned ruling.”

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Consequently, the Bank will apply the tax treatment foreseen in Official Letter DGT-R-09-2022, with the recording of the effects of that recognition in the 2023 period and will calculate the respective obligations that are affected, in accordance with the criteria issued by the Costa Rican Tax Administration.

(54) Reclassification of the loan portfolio in legal collection

As of the September 2023 close, there were reclassifications of the loan portfolio in legal collection to the past due loans account, in conformity with the chart of accounts of CONASSIF Agreement 06-18, which reads as follows:

Loans must be transferred to this account when the entity has complied with its administrative collection proceedings and has filed the lawsuit that begins judicial collection.

In compliance with the foregoing, as of September 30, 2023, the amount of ¢2,892,418,493 was reclassified (2022: ¢81,671,053,225).

(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 conglomerates regulated by the four superintendencies. RFI is effective from January 1, 2020, with some exceptions.

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

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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.

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. This is not in accordance with IAS 38.

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

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

CONASSIF requires an allowance for impairment to be booked as one-forty-eighth of the value of the asset, until reaching 100% of its carrying amount.

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During the term of 24 months from the date when the asset is awarded or received, the entity may request from the Superintendency an extension of 2 years to sell the asset. The Superintendency may deny the request for an extension (providing reasonable grounds) and require the creation of an allowance for 100% of the asset's carrying amount during the first 24 months. If an extension is provided, the allowance can be created over the term approved by the Superintendency.

d) IFRS 9: Financial Instruments

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.

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 12: Income Taxes

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* became effective from January 1, 2019. On initial application of IFRIC 23, entities had to 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, was 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 could be accounted for in any of the following ways:

- a. Booking against profit or loss for the year, in monthly installments, using the straight-line method, no later than December 31, 2021, or

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- 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.
- iii. If the provision amount were greater than the opening balance of prior-period retained earnings, the adjustment would be attributed first to the opening balance of prior-period retained earnings, and for complementing, the indications of item a. will be followed.

On January 31, 2019, at the latest, the entity, which had tax treatments in dispute for the years indicated in this provision, had to report with the respective superintendency the method (a), (b) or (c) above, based on CONASSIF Directive 6-18, that would 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.