

**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**

Financial Information required by the  
Superintendency General of Financial Entities

Consolidated Financial Statements

As of December 31, 2020

*(With Independent Auditors' Report Thereon)*

*(Translation into English of the original  
Independent Auditors' Report issued in Spanish)*



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## Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica

### *Opinion*

We have audited the consolidated financial statements of Banco Nacional de Costa Rica and Subsidiaries (the Bank), which comprise the consolidated balance sheet as of December 31, 2020, the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as of December 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the financial reporting provisions of the accounting regulations issued by the National Financial System Oversight Board (CONASSIF), the Superintendency General of Financial Entities (SUGEF), the National Securities Commission (SUGEVAL), the Pensions Superintendency (SUPEN), and the Superintendency General of Insurance (SUGESE).

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code), along with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Costa Rica, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Emphasis of Matter – Basis of Accounting*

We draw your attention to note 1-b to the consolidated financial statements, which describes the basis of accounting. The consolidated financial statements have been prepared in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL, SUPEN, and SUGESE. Therefore, the consolidated financial statements may not be suitable for another purpose. Our opinion has not been modified in this regard.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in our audit
1. Valuation of derivative financial instruments	
The Bank has derivative financial instruments, which are valued through the application of valuation techniques that often entail the use of judgments, estimates, and assumptions.	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> <li>• involving our specialists to assess the methodologies, inputs and assumptions used by the Bank in the fair value determination;</li> <li>• questioning the observable inputs in the valuation models, i.e. quoted prices; and</li> <li>• for a sample of derivative instruments, assessing that the Bank's valuations fall within a reasonable range, compared to the valuations derived from our valuation model, considering the inherent uncertainties disclosed in the financial statements;</li> <li>• submitting confirmations to the financial entities with which the Bank holds derivative financial instruments.</li> </ul>

Key Audit Matter	How the matter was addressed in our audit
<p data-bbox="220 323 816 390">2. Compliance with the regulation to determine the allowance for loan losses</p> <p data-bbox="220 401 816 579">We have established compliance with SUGEF Directive 1-05, Regulations for Borrower Classification, which provides guidelines to determine the allowance for loan losses, as a key audit matter (see Note 3).</p> <p data-bbox="220 621 816 867">According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages to each borrower, according to their risk rating, which considers the days of arrears, creditworthiness, and historical payment behavior.</p> <p data-bbox="220 909 816 1052">The elements to be considered as basis for the allowance are: the balance of the loan for each borrower, current interest, and stand-by credits.</p> <p data-bbox="220 1094 816 1293">The allowance percentage is applied to the net balance not covered by collaterals eligible for risk mitigation, in conformity with the mitigation percentages established in the aforementioned regulation.</p>	<p data-bbox="837 401 1312 432">Our procedures in this area included:</p> <ul data-bbox="837 474 1533 1461" style="list-style-type: none"> <li data-bbox="837 474 1533 684">• assessing the design and operating efficiency of IT controls on the information systems used by management to calculate arrears in the loan portfolio; performing detailed testing of a sample to confirm the days of arrears used in the calculation;</li> <li data-bbox="837 695 1533 873">• testing the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses;</li> <li data-bbox="837 884 1533 1026">• recalculating the minimum allowance for loan losses on direct and stand-by credits, based on the information furnished by management; testing the integrity of data for this information;</li> <li data-bbox="837 1037 1533 1314">• performing detailed testing of a sample of borrowers, to confirm whether management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals;</li> <li data-bbox="837 1325 1533 1461">• comparing the level of historical payment behavior used by management with the information provided by SUGEF's Credit Information Center.</li> </ul>



Key Audit Matter	How the matter was addressed in our audit
3. Provisions	
The Bank operates within a regulatory environment and noncompliance with certain regulations may result in fines, penalties, litigation, etc. that require judgments and estimates to determine the relevance and the liability, based on management's assessment of the most likely outcome.	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> <li>• assessing management's estimates and judgments that consider the most recent information available, and assessing the accuracy and reliability of the sources of such information;</li> <li>• verifying the adequacy of management's assumptions regarding the confirmations by the Legal Department;</li> <li>• considering management's estimates based on the most likely outcomes within the range of possible outcomes;</li> </ul>

*Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting provisions of the accounting regulations issued by CONASSIF, SUGEF, SUGEVAL, SUPEN, and SUGESE, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

*Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

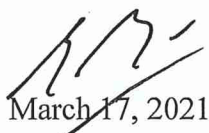
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

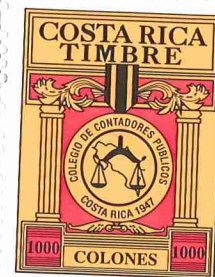
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

  
March 17, 2021

San José, Costa Rica  
Erick Brenes Flores  
Member No. 2520  
Policy No. 0116 FIG 7  
Expires 9/30/2021

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

	Note	2020
<b>ASSETS</b>		
<b>Cash and due from banks</b>	9	1,383,902,440,319
Cash		99,375,577,345
BCCR		822,607,349,488
Local financial entities		1,403,645,589
Foreign financial entities		452,827,309,776
Notes payable on demand		6,280,622,565
Restricted cash and due from banks		1,407,935,556
<b>Investments in financial instruments</b>	10	1,388,756,216,293
At fair value through profit or loss		23,465,673,087
At fair value through other comprehensive income		723,002,449,515
At amortized cost		609,412,003,167
Derivative financial instruments	11	15,753,371,710
Accrued interest receivable		19,648,169,663
(Allowance for impairment of investments in financial instruments)		(2,525,450,849)
<b>Loan portfolio</b>	12	4,296,577,338,170
Current		4,116,568,006,084
Past due		84,141,099,223
In legal collection		158,003,288,313
Direct incremental costs related to loans		3,756,519,754
(Deferred income on loan portfolio)		(33,106,164,873)
Accrued interest receivable		122,742,551,278
(Allowance for loan losses)		(155,527,961,609)
<b>Accounts and fees and commissions receivable</b>	13	1,702,850,177
Commissions receivable		1,378,393,151
Accounts receivable for brokerage operations		5,728,706
Accounts receivable for transactions with related parties		19,025,296
Deferred tax and income tax receivable		188,609,260
Other receivables		4,326,039,872
Accrued interest receivable		2,991,594
(Allowance for impairment of accounts and fees and commissions receivable)		(4,217,937,702)
<b>Foreclosed assets</b>	14	32,365,899,015
Assets and securities acquired in lieu of payment		98,844,527,473
Other available-for-sale assets		55,884,629
(Allowance for impairment of foreclosed assets and per legal requirements)		(66,534,513,087)
<b>Investments in other companies, net</b>	15	72,427,044,914
<b>Property, furniture, equipment and right-of-use assets, net</b>	16	213,220,001,233
<b>Other assets</b>	17	84,106,236,281
Deferred charges		43,321,227,963
Intangible assets		5,300,401,472
Other assets		35,484,606,846
<b>TOTAL ASSETS</b>		<b>7,473,058,026,402</b>

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

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

	Note	2020
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Obligations with the public	18	5,634,090,139,712
Demand obligations		3,553,063,486,246
Term obligations		2,036,536,524,256
Other obligations		7,873,700,508
Finance charges payable		36,616,428,702
Obligations with BCCR	19	27,631,516,887
Term obligations		27,610,335,409
Finance charges payable		21,181,478
Obligations with entities	20	901,742,240,173
Demand obligations		65,275,408,256
Term obligations		831,400,991,291
Deferred commissions		(49,567,474)
Finance charges payable		5,115,408,100
Accounts payable and provisions		105,400,147,488
Provisions	22	28,641,885,395
Accounts payable for brokerage services		1,683,288,201
Deferred tax	21-b	14,111,050,004
Other sundry accounts payable	23	60,963,923,888
Other liabilities	24	37,052,115,137
Deferred income		72,347,267
Other liabilities		36,979,767,870
Subordinated obligations	25	60,950,013,196
Subordinated obligations		59,878,100,000
Finance charges payable		1,071,913,196
<b>TOTAL LIABILITIES</b>		<b>6,766,866,172,593</b>
<b>EQUITY</b>		
Share capital		172,237,030,102
Paid-in capital	26-a	172,237,030,102
Equity adjustments - Other comprehensive income		87,988,935,702
Reserves	26-b	381,362,590,326
Prior-period retained earnings		10,852,247,684
Income for the period		14,707,684,872
Capital contributions or special funds	26-c	39,043,365,123
<b>TOTAL EQUITY</b>		<b>706,191,853,809</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,473,058,026,402</b>
<b>DEBIT MEMORANDA ACCOUNTS</b>	27	481,372,304,314
<b>TRUST ASSETS</b>	28	2,001,643,523,415
<b>TRUST LIABILITIES</b>		138,640,927,340
<b>TRUST EQUITY</b>		1,863,002,596,075
<b>TRUST MEMORANDA ACCOUNTS</b>		159,832,530,404
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	29	26,667,943,872,294
Own debit memoranda accounts		8,317,223,534,996
Third-party debit memoranda accounts		4,073,078,162,064
Own debit memoranda accounts for custodial activities		654,639,927,606
Third-party debit memoranda accounts for custodial activities		13,623,002,247,628

Bernardo Alfaro Araya  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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



**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
(In colones)

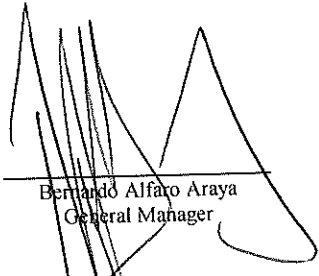
	Note	2020
<b>Finance income</b>		
Cash and due from banks	33	2,558,782,253
Investments in financial instruments	33	70,897,711,863
Loan portfolio	34	386,015,382,903
Gain on financial instruments at fair value through profit or loss		2,921,511,205
Gain on financial instruments at fair value through other comprehensive income		8,565,074,041
Gain on derivative financial instruments, net	11	15,725,735,198
Other finance income	35	16,664,370,004
<b>Total finance income</b>		<b>503,348,567,467</b>
<b>Finance costs</b>		
Obligations with the public	36	168,377,366,344
Obligations with BCCR		19,124,306
Obligations with financial and non-financial entities	37	46,555,254,915
Subordinated, convertible and preferred obligations		4,252,886,562
Loss on foreign exchange differences and DU, net	6-c	1,040,564,949
Loss on financial instruments at fair value through profit or loss		3,141,560,237
Loss on financial instruments at fair value through other comprehensive income		851,826,786
Other finance costs	38	20,661,630,064
<b>Total finance costs</b>		<b>244,900,214,163</b>
Allowance for impairment of assets	39	72,031,391,007
Recovery of assets and decrease in allowances	40	9,596,142,972
<b>FINANCE INCOME</b>		<b>196,013,105,269</b>
<b>Other operating income</b>		
Service fees and commissions	41	138,619,699,639
Foreclosed assets		8,075,659,985
Gain on investments in other companies	8	876,994,771
Foreign currency exchange and arbitrage		20,086,422,361
Other operating income	42	17,209,157,895
<b>Total other operating income</b>		<b>184,867,934,651</b>


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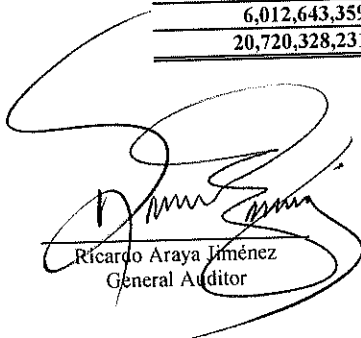
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**BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**  
(In colones)

	Note	2020
<b>Other operating expenses</b>		33,850,030,122
Service fees and commissions	43	20,616,479,120
Foreclosed assets	44	7,402,667,474
Provisions		205,560,637
Bonuses on fees and commissions of voluntary pension funds		5,164,465
Foreign currency exchange and arbitrage		21,362,286
Other expenses with related parties	45	52,840,306,872
Other operating expenses		<u>114,941,570,976</u>
<b>Total other operating expenses</b>		<u>265,939,468,944</u>
<b>GROSS OPERATING INCOME</b>		
<b>Administrative expenses</b>		
Personnel expenses	46	136,020,477,059
Other administrative expenses	47	72,218,973,962
<b>Total administrative expenses</b>		<u>208,239,451,021</u>
<b>NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS</b>		<u>57,700,017,923</u>
Current tax	21-a	17,056,944,248
Prior period income tax	21-a	14,242,766,521
Deferred tax	21-a	1,588,064,192
Deferred tax income	21-a	2,214,501,920
Statutory allocations	48	12,319,060,010
<b>INCOME FOR THE YEAR</b>		<u>14,707,684,872</u>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
Items that will not be reclassified to profit or loss		459,097,265
Surplus from revaluation of property		3,943,584,208
Interests in equity-accounted investees		
Items that are or may be reclassified to profit or loss		1,638,673,247
Adjustment for valuation of investments at fair value through other comprehensive income		(28,711,361)
Adjustment for valuation of restricted financial instruments		<u>6,012,643,359</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>		<u>20,720,328,231</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		

  
Bernardo Alfaro Araya  
General Manager

  
Alejandra Morales Centeno  
General Accountant  
CPI 21119

  
Ricardo Araya Jiménez  
General Auditor

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

Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-period retained earnings	TOTAL
Balance at December 31, 2019	172,237,030,102	83,000,303,041	348,798,402,459	34,648,535,964	53,253,753,772	691,938,025,338
Changes in accounting policies	-	543,568,126	-	-	(7,010,067,886)	(6,466,499,760)
Balance at January 1, 2020	172,237,030,102	83,543,871,167	348,798,402,459	34,648,535,964	46,243,685,886	685,471,525,578
Transactions with owners booked directly in equity:						
Legal reserves	-	-	26,473,217,306	-	(26,473,217,306)	-
Other statutory reserves	-	-	6,090,970,561	-	(6,090,970,561)	-
Equity of special funds	-	-	-	4,394,829,159	(4,394,829,159)	-
Total transactions with owners booked directly in equity	-	-	32,564,187,867	4,394,829,159	(36,959,017,026)	-
Comprehensive income for the year:	-	-	-	-	14,707,684,872	14,707,684,872
Income for the year	-	459,097,265	-	-	-	459,097,265
Surplus from revaluation of property	-	1,638,673,247	-	-	-	1,638,673,247
Adjustment for valuation of investments at fair value through other comprehensive income	10	(28,711,361)	-	-	-	(28,711,361)
Adjustment for valuation of restricted financial instruments	10	3,943,584,208	-	-	-	3,943,584,208
Entities accounted for using the equity method	-	(1,567,578,824)	-	-	1,567,578,824	-
Realization of surplus from revaluation of property	-	4,445,064,535	-	-	16,275,263,696	20,720,328,231
Total comprehensive income for the year	-	87,988,935,702	381,362,590,326	39,043,365,123	25,559,932,556	706,191,853,809
Balance at December 31, 2020	172,237,030,102	87,988,935,702	381,362,590,326	39,043,365,123	25,559,932,556	706,191,853,809

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

	Note	2020
<b>Cash flows from operating activities</b>		
Income for the year		14,707,684,872
<b>Items not requiring cash</b>		
Depreciation and amortization		22,914,006,465
Loss on foreign exchange differences and DU, net		60,946,130,423
Loss on sale of non-financial assets		6,286,466,111
Finance income		(456,913,094,766)
Finance costs		159,537,437,360
Allowance for investments, net		2,019,414,213
Allowance for loan losses and stand-by credits, net		68,378,115,627
Allowance for other accounts receivable, net		325,932,537
Loss on allowance for foreclosed assets, net		2,816,102,003
Severance provision		(165,827,562)
Other provisions		(3,254,233,257)
Share of net profit in foreign associate, net		(14,067,708,334)
Statutory allocations, net		12,319,060,010
Income tax expense, net	21-a	31,299,710,769
Deferred tax	21-a	(626,437,728)
		<u>(93,477,241,257)</u>
<b>Cash flows from operating activities</b>		
Loan portfolio		(10,595,570,320)
Accounts and fees and commissions receivable		(1,158,686,406)
Foreclosed assets		14,104,920,243
Other assets		(6,882,740,426)
Obligations with the public		194,383,195,081
Obligations with BCCR and other entities		(42,775,595,515)
Obligations for accounts payable, fees and commissions payable and provisions		(1,549,499,905)
Other liabilities		(22,782,741,936)
Income tax paid		(31,264,592,113)
Interest received on loan portfolio and investments		369,386,633,282
Interest paid on term obligations with the public and financial entities		(174,844,953,478)
Statutory allocations paid		(17,158,214,687)
<b>Net cash from operating activities</b>		<u>175,384,912,563</u>
<b>Cash flows from investing activities</b>		
Increase in financial instruments		(2,686,758,583,356)
Decrease in financial instruments		2,659,961,332,417
Acquisition of property and equipment		(22,066,188,735)
Sale of property and equipment		1,022,964,265
Acquisition of intangible assets		(2,534,996,695)
<b>Net cash used in investing activities</b>		<u>(50,375,472,104)</u>
<b>Cash flows from financing activities</b>		
Settlement of financial obligations		(39,300,142,052)
New financial obligations		46,326,617,254
Payment of lease liabilities		(2,051,296,709)
<b>Net cash from financing activities</b>		<u>4,975,178,493</u>
<b>Net increase in cash and cash equivalents</b>		<u>129,984,618,952</u>
<b>Cash and cash equivalents at beginning of year</b>		<u>1,353,204,011,408</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>1,483,188,630,360</u></u>

Bernardo Alfaro Araya  
General Manager

Alejandra Morales Centeno  
General Accountant  
CPI 21119

Ricardo Araya Jiménez  
General Auditor

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

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of December 31, 2020

### (1) Reporting entity

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

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

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

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

As of December 31, 2020, the Conglomerate has 157 offices, 446 ATM's, and along with its subsidiaries a total of 5,504 employees. Employees are distributed as follows: Banco Nacional de Costa Rica - 5,070 employees; BN Valores Puesto de Bolsa, S.A. - 67 employees; BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 179 employees; BN Sociedad Administradora de Fondos de Inversión, S.A. - 88 employees; and BN Sociedad Corredora de Seguros, S.A. - 100 employees. The Bank's website is [www.bncr.fi.cr](http://www.bncr.fi.cr).

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The following subsidiaries are wholly owned by the Bank:

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

		2020				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢	49,576,661,728	11,093,309,837	12,218,697,173	8,106,052,844	562,510,298,505
Liabilities		31,045,542,773	1,289,254,469	2,507,717,325	931,494,174	490,133,876,894
Equity		18,531,118,955	9,804,055,368	9,710,979,848	7,174,558,670	72,376,421,611
Income for the period		2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	866,529,479
Memoranda accounts		1,199,940,596,159	599,339,040,487	1,870,044,097,261	-	-

### (2) Basis of accounting

#### (a) Basis of accounting

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

With the entrance into effect of SUGEF Directive 30-18 *Regulation on Financial Information* (RFI), the regulatory basis of accounting is updated in order to make progress in the adoption of 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.

Transition Provision I of RFI indicates that the comparative presentation of audited intermediate and annual financial statements for 2020 will not be mandatory. For purposes of implementing the RFI, adjustments must be made to retained earnings, which as of January 1, 2020 amounted to ¢7,010,067,886 (see Note 53).

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (b) Basis of measurement

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

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

#### (3) Functional and presentation currency

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### *a- Judgments*

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

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

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2020 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.

#### *(5) Significant accounting policies*

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(a) Basis of consolidation

i. *Subsidiaries*

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

ii. *Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. As of December 31, 2020, the Bank has 49% interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

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

iii. *Loss of control*

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

iv. *Interests in equity-accounted investees*

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. *Transactions eliminated on consolidation*

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

(b) Foreign currency

i. *Foreign currency transactions*

Monetary assets and liabilities denominated in foreign currencies are translated into colones at the exchange rate at the date of the consolidated statement of financial position, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currencies during the year 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 December 31, 2020, assets and liabilities in US dollars were valued at the exchange rate of ₡617.30 per US\$1.00, which is the reference selling rate established by BCCR.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

As of December 31, 2020, assets and liabilities denominated in euro were valued at the exchange rate of ₡758.11 per €1.00, which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of December 31, 2020, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ₡920.08 to DU1.00. This exchange rate is based on the DU value tables published by SUGEVAL.

#### *iv. Foreign operations*

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

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

#### *(c) Financial instruments*

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Classification and subsequent measurement

Financial assets

*Classification*

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### *Business model assessment*

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the 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 Bank considers:

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### Financial liabilities

##### *Classification*

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Impairment of financial assets

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

- Investment securities
- 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 Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

#### *Forward-looking information*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(d) Impairment of non-financial assets

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

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Derecognition

Financial assets

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

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

Financial liabilities

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

(v) Offsetting

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

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

(e) Derivative financial instruments

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(f) Embedded derivatives

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

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

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

The Conglomerate currently has the following derivative financial instruments:

✓ Derivatives held for risk management

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

✓ Derivatives other than hedges

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(g) Cash and cash equivalents

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

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

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) *Depreciation and amortization*

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

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

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

(i) Intangible assets

(i) *Recognition and measurement*

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

(ii) *Amortization*

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

(iii) *Subsequent expenditure*

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.

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 Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

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

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

The 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(l) Allowance for loan losses

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

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

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

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

As of December 31, 2020, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(n) Other receivables

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

(o) Foreclosed assets

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

SUGEF Directive 34-02 requires that the allowance for impairment of foreclosed assets acquired or produced after May 2010 be established gradually by booking one-twenty-fourth of the value of such assets each month during two years until the allowance is equivalent to 100% of the assets' carrying amount. Through notes No. 1573-09 and No. 1574-10 dated May 7, 2020, CONASSIF communicated by means of Article 72 of IRNBS (Law No. 1644) the extension of the term from 24 months to 48 months, whereby the total (100%) allowance for impairment of foreclosed assets must be applied. However, if it has not been sold within 24 months from the date of the award or receipt of the asset, the entity must request from the Superintendency an extension for an equal term for sale of the asset. The extension request may be denied by the Superintendency, providing adequate grounds for its decision, in which case it will require the creation of an allowance for 100% of the carrying amount. If the entity does not request an extension, it will also be required to create an allowance.

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

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(r) Employee benefits

(i) Short-term employee benefits

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

*Statutory Christmas bonus*

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

*Vacation*

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

*Incentives plan*

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

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

The expense for the incentive is booked monthly in a liability account, which is liquidated the following year when the payment is made to employees and former employees who met the required conditions.

#### (ii) Defined contribution plans

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

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

#### (iii) Defined benefit plans

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(iv) Termination benefits

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(v) Employee Protection and Retirement Fund

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

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

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

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

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

(s) Deferred income

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (t) Legal reserve

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

### Other statutory reserves

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

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

### (u) Revaluation surplus

Revaluation surplus included in the consolidated statement of changes in equity may be transferred directly to prior period retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal or use of the asset. The transfer of revaluation surplus to prior period retained earnings is not made through the consolidated statement of comprehensive income. Per SUGEF's authorization, the Bank follows the policy of transferring the revaluation surplus to prior period retained earnings for subsequent capitalization, in conformity with Article 8 of IRNBS (Law No. 1644) and SUGEF Directive 33-07.

### (v) Income tax

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

#### *i. Current tax*

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted at the date of the consolidated statement of financial position and any adjustment to tax payable in respect of previous 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 *Comprehensive Amendment to Law No. 8634, Development Banking System Act and Amendment to Other Laws* (Law No. 9274), effective from November 27, 2014, that fund is exempt from income tax and from any other type of tax.

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

(w) Segment reporting

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

(x) Financial statements of the different departments

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(y) Recognition of income and expenses

*i. Interest income and interest expense*

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

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

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

*ii. Fee and commission income*

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

*iii. Income from foreign currency exchange and arbitrage*

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv. *Operating lease expenses*

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

(z) Statutory allocations

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

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(aa) Development Financing Funds (FOFIDE)

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

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

(bb) Development Credit Fund (FOCREDE)

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.
- b. Pursuant to Article 35 of Law No. 8634, the Managing Banks may offer second-tier banking services with FOCREDE funds for financial entities other than private banks, provided that the purposes and obligations established in Law No. 8634 are met and such entities are duly authorized by the Governing Board.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### (cc) Trust operations

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

#### (6) Risk management

The 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 Bank is exposed are monitored by that Division on an ongoing basis using a mapping procedure to classify risks based on their severity or impact and their frequency or probability of occurrence.

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

The Bank manages the above risks as follows:

*a) Credit risk*

*i. Banco Nacional de Costa Rica*

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

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

The Bank has established the following credit risk management procedures:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of December 31, the Bank's financial instruments with exposure to credit risk are as follows:

		2020	
		Direct	Stand-by
<u>Loan portfolio</u>			
Principal	¢	4,358,712,393,620	326,647,988,405
Accounts and accrued interest receivable		122,742,551,278	-
Gross carrying amount		4,481,454,944,898	326,647,988,405
Incremental direct costs related to loans		3,756,519,754	-
(Deferred income from loan portfolio)		(33,106,164,873)	-
Allowance for loan losses (accounting records)		(137,910,635,469)	(717,444,504)
Net carrying amount	¢	4,314,194,664,310	325,930,543,901
		2020	
		Direct	Stand-by
<u>Loan portfolio</u>			
Total balances:			
0	¢	40,994,588,758	-
A1		3,345,716,965,669	317,614,486,504
A2		70,320,669,488	1,096,793,509
B1		488,272,878,369	3,298,059,207
B2		11,113,365,743	108,882,676
C1		109,225,670,415	1,087,057,410
C2		6,041,845,665	28,546,854
D		189,627,097,686	1,693,080,384
E		220,141,863,105	1,721,081,861
		4,481,454,944,898	326,647,988,405
Structural allowance (subledger – database)		(121,583,122,042)	(159,549,419)
Net carrying amount	¢	4,359,871,822,856	326,488,438,986

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		2020	
		Direct	Stand-by
Individually assessed loans with allowance:			
0	¢	40,994,588,758	-
A1		3,345,716,965,669	38,054,128,498
A2		70,320,669,488	48,005,089
B1		488,272,878,369	785,385,236
B2		11,113,365,743	-
C1		109,225,670,415	35,434,298
C2		6,041,845,665	-
D		189,627,097,686	46,196,377
E		220,141,863,105	9,921,901
		4,481,454,944,898	38,979,071,399
Structural allowance (subledger – database)		(121,583,122,042)	(159,549,419)
Net carrying amount	¢	4,359,871,822,856	38,819,521,980

		2020	
		Direct	Stand-by
Current loan portfolio, without allowance:			
0	¢	-	-
A1		-	279,560,358,007
A2		-	1,048,788,420
B1		-	2,512,673,971
B2		-	108,882,676
C1		-	1,051,623,112
C2		-	28,546,853
D		-	1,646,884,007
E		-	1,711,159,960
Carrying amount		-	287,668,917,006
Gross carrying amount	¢	4,481,454,944,898	326,647,988,405
Allowance for loan losses (database)		(121,583,122,042)	(159,549,419)
(Excess) of allowance over structural allowance		(16,327,513,427)	(557,895,085)
Incremental direct costs related to loans		3,756,519,754	-
(Deferred income from loan portfolio)		(33,106,164,873)	-
Net carrying amount	¢	4,314,194,664,310	325,930,543,901
Restructured loans	¢	28,579,496,207	-

(Continued)

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, gross and net (of allowance for loan losses), by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16:

	2020	
	Loans to customers	
	Gross	Net
0	¢ 40,994,588,758	39,457,228,408
A1	3,345,716,965,669	3,310,851,971,253
A2	70,320,669,488	69,963,612,937
B1	488,272,878,369	483,483,600,669
B2	11,113,365,743	10,943,797,620
C1	109,225,670,415	106,226,875,294
C2	6,041,845,665	5,724,122,768
D	189,627,097,686	169,651,437,137
E	220,141,863,105	146,524,218,838
	¢ 4,481,454,944,898	4,342,826,864,924

As shown above, as of December 31, 2020, the gross portfolio amounts to ¢4,481 billion. Of that amount, 88.28% is classified in risk ratings "A+B" and 11.72% in risk ratings "C+D+E".

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

#### Loan write-off policy:

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

#### Borrower classification

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

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

Borrower classification	2020	
	Direct	Stand-by
Group 1	¢ 2,323,207,378,048	43,772,477,720
Group 2	2,158,247,566,850	282,875,510,685
	¢ 4,481,454,944,898	326,647,988,405

### Risk ratings

The Bank individually classifies its borrowers in one of eight risk ratings, identified as A1, A2, B1, B2, C1, C2, D and E, with rating A1 as the lowest credit risk and rating E as the highest credit risk.

For purposes of the analysis of creditworthiness, pursuant to SUGEF Directive 1-05, borrowers in Group 1 are classified based on arrears, historical payment behavior and creditworthiness; whereas, pursuant to the Bank's internal policies and based on the credit web, borrowers in Group 2 are classified based on arrears and historical payment behavior:

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

### *Analysis of creditworthiness*

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

#### *Analysis of historical payment behavior*

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

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

#### Structural allowance for loan losses

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

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

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

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

(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:

	2020		
	Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢ 137,910,635,470	(121,583,122,042)	16,327,513,428
Allowance for stand-by credits	717,444,504	(159,549,419)	557,895,085
	138,628,079,974	(121,742,671,461)	16,885,408,513
Counter-cyclical allowance per SUGEF Directive 19-16	16,899,881,635	(16,899,881,635)	-
	¢ 155,527,961,609	(138,642,553,096)	16,885,408,513

### Counter-cyclical allowance

As of December 31, 2020, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*.

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

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

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

Through Directive No. CNS 1617-2020 dated November 2, 2020, SUGEF suspended the application of the counter-cyclical regulation until December 31, 2021.

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

Similarly, as of December 1, 2020 and until December 31, 2021, the total or partial reclassification of the balance accumulated in the accounts 139.02.M.02 (counter-cyclical allowance) and 139.52.M.03 (counter-cyclical allowance for stand-by credits) shall only be performed, for the same amount, to account 139.01 (specific allowance for the loan portfolio). Thus, the size of the reclassification is determined solely by increases in specific allowances for borrowers reclassified to risk categories C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05 and categories 4, 5 and 6 according to section 2 of Appendix 3 "Standard Methodology" of SUGEF Directive 15-16.

### Credit equivalent

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

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

### Allowance for other assets

Allowances should be established for the following assets:

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

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

As of December 31, 2020, the carrying amount of the allowance for impairment of foreclosed assets and per legal requirements amounts to ¢66,534,513,087.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Sector	Direct 2020	Stand-by 2020
Trade	¢ 379,463,153,164	3,017,935
Services	906,583,636,691	49,569,772,348
Financial services	86,857,848,511	-
Mining	753,419,319	-
Manufacturing and quarrying	158,480,352,048	-
Construction	98,863,810,146	-
Agriculture and forestry	123,368,032,357	1,492,879
Livestock, hunting and fishing	76,171,294,935	-
Electricity, water, sanitation and other related sectors	485,460,973,865	-
Transportation and telecommunications	49,921,304,397	-
Housing	1,354,761,821,842	2,593,374
Personal or consumer	550,280,943,005	276,948,161,869
Tourism	210,488,354,618	122,950,000
	¢ <u>4,481,454,944,898</u>	<u>326,647,988,405</u>

As of December 31, the concentration of financial assets by geographic location is as follows:

	Direct 2020	Stand-by 2020
Central America	¢ <u>4,481,454,944,898</u>	<u>326,647,988,389</u>

As of December 31, the loan portfolio by type of guarantee is as follows:

Type of guarantee	Direct 2020	Stand-by 2020
Back-to-back	¢ 14,462,451,860	77,323,706
Assignment of loans	366,052,563,056	-
Mortgage	1,767,875,598,982	11,562,863
Surety	883,957,113,887	1,492,879
Trust	394,175,395,892	-
Securities	1,340,225,185	-
Chattel mortgage	245,206,238,982	-
Other	808,385,357,054	326,557,608,957
	¢ <u>4,481,454,944,898</u>	<u>326,647,988,405</u>

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Guarantees:

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of December 31, 2020, 57.36% of the loan portfolio is secured by collateral guarantees.

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

Loan portfolio concentration	Direct 2020	Stand-by 2020
¢1 to ¢3,000,000	¢ 143,057,915,999	88,276,491,489
¢3,000,001 to ¢15,000,000	589,277,545,311	185,296,924,889
¢15,000,001 to ¢30,000,000	459,655,550,913	8,263,896,245
¢30,000,001 to ¢50,000,000	480,332,944,460	3,074,056,796
¢50,000,001 to ¢75,000,000	431,573,716,770	2,233,789,511
¢75,000,001 to ¢100,000,000	210,252,851,249	1,218,269,706
¢100,000,001 to ¢200,000,000	243,832,073,173	3,446,405,182
More than ¢200,000,000	1,923,472,347,023	34,838,154,587
	¢ 4,481,454,944,898	326,647,988,405

As of December 31, 2020, the portion of the loan portfolio (direct and stand-by loans) corresponding to economic interest groups amounts to ¢727,628,325,075, which is 16.40% of the loan portfolio.

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

As of December 31, 2020, all economic activities showed increases in the VaR of the loan portfolio, especially in activities such as livestock, transport, industry, consumer and trade. These increases are the result of higher levels of arrears in the loan portfolios for those activities, due to the difficult economic situation faced by the country in relation to the COVID-19 pandemic.

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Loss Allowance	
Portfolio	2020
Investments measured at FVOCI	¢ 42,287,656

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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.

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

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

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

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

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

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.

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 five years.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Loss allowance	
Portfolio	2020
Investments measured at amortized cost	¢ 176,254,492
Investments measured at FVOCI	¢ 38,166,920

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

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

Loss Allowance	
Fund	2020
Investments measured at FVOCI	¢ 39,160,659

### 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.

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

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

Loss allowance	
Portfolio	2020
Investments measured at amortized cost	¢ 2,909,513

### Investments in financial instruments

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

The Bank has a classification of its instruments aligned with the three business models defined and updated during the last quarter of 2020. The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at fair value through other comprehensive income (FVOCI). For instruments measured at fair value through profit or loss, expected credit losses are not calculated for impairment of the issuer's credit.

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

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

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of December 31, 2020				
	12-month PD ranges	Stage 1	Stage 2	Total
Investment securities	%	¢ 460,095,462,185	149,316,540,982	609,412,003,167
Allowance	-	(2,290,915,486)	(234,476,665)	(2,525,392,151)
		¢ 457,804,546,699	149,082,064,317	606,886,611,016

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

As of December 31, 2020					
	12-month PD ranges	Stage 1	Stage 2	Stage 3	Total
Investment securities	%	¢ 625,861,844,907	1,578,915,502	95,561,689,106	723,002,449,515
Allowance	-	(999,842,130)	(30,477,303)	(142,356,947)	(1,172,676,380)
		¢ 624,862,002,777	1,548,438,199	95,419,332,159	721,829,773,135

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

As of December 31, 2020			
	12-month PD ranges	Stage 1	Total
Investment securities	%	¢ 23,465,673,087	23,465,673,087
		¢ 23,465,673,087	23,465,673,087

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, investments by geographic location are as follows:

Country	2020		
	Principal	Interests	Total
Costa Rica	¢ 819,840,965,901	16,749,339,679	836,590,305,580
Panama	6,142,803,937	-	6,142,803,937
United States	419,086,579,344	2,098,898,774	421,185,478,118
Mexico	192,917,281	2,652,464	195,569,745
Canada	12,812,416,361	97,418,761	12,909,835,122
Venezuela	9,904,044,511	1,200,303	9,905,244,814
Europe	71,838,020,526	550,368,328	72,388,388,854
Asia	7,383,941,737	57,019,099	7,440,960,836
Australia	8,305,922,418	88,708,745	8,394,631,163
New Zealand	372,513,753	2,563,510	375,077,263
	¢ 1,355,880,125,769	19,648,169,663	1,375,528,295,432

Amounts arising from expected credit losses

- *Significant increase in credit risk*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

- *Definition of default*

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *Incorporation of forward-looking information*

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

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

- *Measurement of expected credit losses*

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

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

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

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

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

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

As described above, and subject to using a maximum of 12-month PD for financial assets for which credit risk has not increased significantly, the Bank measures ECL considering the risk of default over the maximum contractual period (including any extension option for the borrower) over which it is exposed to credit risk, even when, for credit risk management purposes, the Bank considers a longer period.

- *Expected credit losses*

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

		Stage 1	Stage 2	Total
<u>Investment securities</u>				
Balance as of January 1, 2020	¢	1,233,495,629	452,116,713	1,685,612,342
Update of allowance		(1,250,380)	-	(1,250,380)
Allowance for new investments		1,723,889,121	784,744,506	2,508,633,627
Decrease in allowance		(341,604,287)	(153,322,771)	(494,927,058)
Balance as of December 31, 2020	¢	2,614,530,083	1,083,538,448	3,698,068,531

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

i. Banco Nacional de Costa Rica

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

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

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

Year on year, the LCR indicator in colones decreased 35 percentage points during the last year, closing at 174% as of December 31, 2020, due to profit-taking in local currency, especially during the second half of the year, given that credit placement has remained low during the last year. This caused a drop in the stock of liquid assets (HQLA) of 8.7% (¢86,000 million, mainly in investments in the local market (MIL)) and an increase in net cash outflows of 10.6% (¢56,500 million, mainly in wholesale and retail commitments). The LCR indicator remains considerably below the appetite level at 125%, equivalent to ¢281,700 million.

At the December 2020 close, the LCR indicator in US dollars located at 338%, considerably below risk appetite, in the amount of \$1,020, due to a tender offer or prepayment of an international issue for a total of \$150 million due to the contraction of credit in foreign currency and a rise in profit taking in foreign currency during 2020, as follows:

<u>Indicator</u>	<u>2020</u>	<u>Level</u>
LCR colones	173.7%	Appetite
LCR US dollars	337.8%	Appetite

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	83,191,055,476	-	-	-	-	-	83,191,055,476
Minimum legal deposit in BCCR		-	292,433,585,154	17,605,338,104	22,042,761,437	17,584,756,620	46,169,098,760	61,642,338,518	477,311,754,492
Investments		-	5,249,253,988	12,206,215,336	5,648,478,344	81,896,814,929	34,327,213,131	89,030,080,164	799,886,020,422
Loan portfolio		215,834,687,685	-	93,924,226,007	35,978,988,780	37,546,272,873	90,773,169,586	117,114,507,583	3,234,256,474,148
Recovery of assets	¢	215,834,687,685	380,873,894,618	123,735,779,447	63,670,228,561	137,027,844,422	171,269,481,477	267,786,926,265	4,594,645,304,538
Obligations with the public	¢	-	2,304,280,987,744	182,730,987,691	126,942,104,006	117,732,735,457	422,149,801,956	486,149,956,062	3,776,708,861,186
Obligations with BCCR		-	-	8,000,000,000	-	-	-	125,644,411	8,125,644,411
Obligations with financial entities		-	47,223,696,761	87,694,711,007	11,027,635,741	4,861,238,813	29,737,870,253	23,821,799,824	242,309,141,264
Charges payable		-	9,808,616,786	7,965,005,291	4,607,335,956	752,841,453	3,170,555,665	974,606,803	28,696,490,365
Maturity of liabilities		-	2,361,313,301,291	286,390,703,989	142,577,075,703	123,346,815,723	455,058,227,874	510,946,362,689	4,055,840,137,226
Difference	¢	215,834,687,685	(1,980,439,406,673)	(162,654,924,542)	(78,906,847,142)	13,681,028,699	(283,788,746,397)	(243,159,436,424)	538,805,167,312

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	477,838,937,850	-	-	-	-	265,097,504	478,104,035,354
Minimum legal deposit in BCCR		-	224,941,551,259	13,123,484,701	10,509,443,406	13,824,245,689	46,896,378,576	22,774,782,880	345,295,594,997
Investments		-	-	11,946,148,648	64,236,093,725	15,380,891,441	73,229,413,944	132,909,815,806	591,395,646,722
Loan portfolio		129,691,325,464	-	27,970,864,787	13,764,812,005	19,630,831,744	36,655,292,826	45,344,967,580	1,217,848,825,630
Recovery of assets	¢	129,691,325,464	702,780,489,109	53,040,498,136	88,510,349,136	48,835,968,874	156,781,085,346	201,029,566,266	2,632,644,102,703
Obligations with the public	¢	-	1,248,782,498,503	102,119,249,680	64,389,971,051	65,147,305,875	138,752,077,623	115,839,661,810	1,820,764,849,824
Obligations with financial entities		-	18,897,904,631	100,939,462,877	687,610,470	645,078,500	194,402,257,716	25,612,886,418	673,851,949,279
Charges payable		-	2,732,172,789	1,172,200,262	841,038,649	847,304,371	5,823,049,192	741,129,349	13,056,527,916
Maturity of liabilities	¢	-	1,270,412,575,923	204,230,912,819	65,918,620,170	66,639,688,746	338,977,384,531	142,193,677,577	2,507,673,327,019
Difference	¢	129,691,325,464	(567,632,086,814)	(151,190,414,683)	22,591,728,966	(17,803,719,872)	(182,196,299,185)	58,835,888,689	124,970,775,684

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

Management of liquidity risk

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

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

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

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

Management of liquidity risk

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

#### Management of liquidity risk

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

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

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

v. BN Corredora de Seguros, S.A.

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

#### Management of liquidity risk

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

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

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### c) Market risk

#### i. Banco Nacional de Costa Rica

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

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

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

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

As of December 31, the portfolios by currency are as follows:

<u>Face value of investments by currency</u>	
<u>Currency</u>	<u>2020</u>
Colones	696,014,400,000
US dollars - local issuers	17,819,000
US dollars - international issuers	850,647,000

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### Management of market risks

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

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

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

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

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### Market risk exposure – trading portfolio:

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

As of December 31, the VaR of the Investment Fund Manager's portfolio is as follows:

	2020
VaR (99% confidence level)	0.68%

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### Market risk management

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

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

#### Market risk exposure

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

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

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

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

#### Market risk management

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

#### Market risk management

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Market risk of investments

- i. Banco Nacional de Costa Rica

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

- Interest rate risk

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

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

Type of risk	2020
Interest rate risk in colones	0.59%
Interest rate risk in foreign currency	0.15%

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

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

(Continued)



# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

	Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>								
Investments	¢ 5,249,253,988	12,035,128,603	87,350,594,655	34,282,463,860	89,008,576,332	161,217,607,333	409,655,466,784	798,799,091,555
Loan portfolio	-	2,743,482,999,690	110,423,768,268	105,350,643,410	15,136,734,335	15,884,604,463	112,257,528,434	3,102,536,278,600
Recovery of rate-sensitive assets LC (A)	¢ 5,249,253,988	2,755,518,128,293	197,774,362,923	139,633,107,270	104,145,310,667	177,102,211,796	521,912,995,218	3,901,335,370,155
Obligations with the public	¢ -	269,359,097,533	261,671,099,024	455,073,627,874	507,422,182,715	90,309,475,049	59,726,094,950	1,643,561,577,145
Obligations with BCCR	-	8,000,666,667	-	-	-	-	125,644,412	8,126,311,079
Obligations with financial entities	-	10,334,221,238	4,500,000,000	-	-	-	30,060,611,046	44,894,832,284
Maturity of rate-sensitive liabilities LC (B)	¢ -	287,693,985,438	266,171,099,024	455,073,627,874	507,422,182,715	90,309,475,049	89,912,350,408	1,696,582,720,508
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢ 5,249,253,988	2,467,824,142,855	(68,396,736,101)	(315,440,520,604)	(403,276,872,048)	86,792,736,747	432,000,644,810	2,204,752,649,647
<i>Foreign currency (FC)</i>								
Investments	¢ -	11,928,388,819	79,595,991,040	70,405,785,974	130,311,541,092	99,402,920,753	183,901,268,855	575,545,896,533
Loan portfolio	-	1,022,312,659,394	38,059,824,746	22,189,477,129	2,433,689,688	20,522,320,483	58,557,755,761	1,164,075,727,201
Recovery of rate-sensitive assets FC (C)	¢ -	1,034,241,048,213	117,655,815,786	92,595,263,103	132,745,230,780	119,925,241,236	242,459,024,616	1,739,621,623,734
Obligations with the public	¢ -	199,406,102,264	132,553,215,498	338,556,655,735	120,826,759,867	49,069,401,401	277,902,215,214	1,118,314,349,979
Obligations with entities	-	5,426,556,056	-	420,728,957	20,577,578,182	-	93,219,460,680	119,644,323,875
Maturity of rate-sensitive liabilities FC (D)	¢ -	204,832,658,320	132,553,215,498	338,977,384,692	141,404,338,049	49,069,401,401	371,121,675,894	1,237,958,673,854
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢ -	829,408,389,893	(14,897,399,712)	(246,382,121,589)	(8,659,107,269)	70,855,839,835	(128,662,651,278)	501,662,949,880
Recovery of rate-sensitive assets 1/ (A + C)	¢ 5,249,253,988	3,789,759,176,506	315,430,178,709	232,228,370,373	236,890,541,447	297,027,453,032	764,372,019,834	5,640,956,993,889
Maturity of rate-sensitive liabilities 2/ (B + D)	¢ -	492,526,643,758	398,724,314,522	794,051,012,566	648,826,520,764	139,378,876,450	461,034,026,302	2,934,541,394,362
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢ 5,249,253,988	3,297,232,532,748	(83,294,135,813)	(561,822,642,193)	(411,935,979,317)	157,648,576,582	303,337,993,532	2,706,415,599,527

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

The consolidated VaR of the Pension Fund Manager's own funds has a decreasing trend, with a maximum of 2.08% and a minimum of 0.67% for an average of 1.19%, equivalent to ₡116.06 million. As of December 31, 2020, the indicator closes at 0.93%, showing an increase due to the portfolio's portion of fixed-rate investments, because the indicator shows the portfolio volatility with respect to market interest rates.

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.

As of December 31, 2020, the Insurance Brokerage Firm has investments amounting to ₡5,249,253,988 in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. They are related to financial assets subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores, with quarterly reports to the Insurance Brokerage Firm. The Insurance Brokerage Firm holds no liabilities subject to interest rate variations.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

• Currency risk

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

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

i. Banco Nacional de Costa Rica

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

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

The result is as follows:

<u>Type of risk</u>	<u>December 2020</u>	<u>Level</u>
Currency risk	2.48%	Appetite

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of December 31, assets and liabilities denominated in foreign currency are as follows:

		US dollars
		2020
<i>Assets:</i>		
Cash and due from banks	US\$	1,284,472,647
Investments in financial instruments		958,036,039
Loan portfolio		1,894,388,418
Accounts and accrued interest receivable		529,362
Investments in other companies		117,246,755
Property, furniture and equipment		803,522
Other assets		25,369,311
	US\$	<u>4,280,846,054</u>
<i>Liabilities:</i>		
Obligations with the public	US\$	2,916,350,289
Other financial obligations		1,098,086,216
Subordinated obligations		98,736,454
Other accounts payable and provisions		12,116,085
Other liabilities		32,469,283
	US\$	<u>4,157,758,327</u>
Excess of assets over liabilities in US dollars	US\$	<u>123,087,727</u>
		Euros
		2020
<i>Assets:</i>		
Cash and due from banks	€	40,224,592
Other assets		30,165
	€	<u>40,254,757</u>
<i>Liabilities:</i>		
Obligations with the public	€	38,083,562
Other financial obligations		844,964
Other accounts payable and provisions		17,250
Other liabilities		511,411
	€	<u>39,457,187</u>
Excess of assets over liabilities in euro	€	<u>797,570</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		DU
		2020
<u>Assets:</u>		
Loan portfolio	UD	2,224,119
	UD	2,224,119
<u>Liabilities:</u>		
Accounts payable and provisions	UD	189,463
	UD	189,463
Excess of assets over liabilities in DU	UD	2,034,656

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

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

	2020
Foreign exchange gains	¢ 414,131,567,059
Foreign exchange losses	(415,172,132,007)
Net losses	¢ (1,040,564,948)

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

	2020
Gain on valuation of other assets, net (Note 40)	¢ 1,130,256,775
Loss on valuation of other liabilities, net (Note 43)	(1,410,449,477)
Net losses	¢ (280,192,702)

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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

As of December 31, 2020, 6.34% of the Pension Fund Manager's portfolio of own funds is represented by investments in US dollars. By adding cash and due from banks denominated in foreign currency, the percentage increases to 7.03% (¢758.16 million), which reveals a currency risk that is relatively low considering the size of the managed portfolio.

v. BN 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.

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

a) Operational risk

i. Banco Nacional de Costa Rica

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

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

That policy is implemented through a management framework that includes:

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

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

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

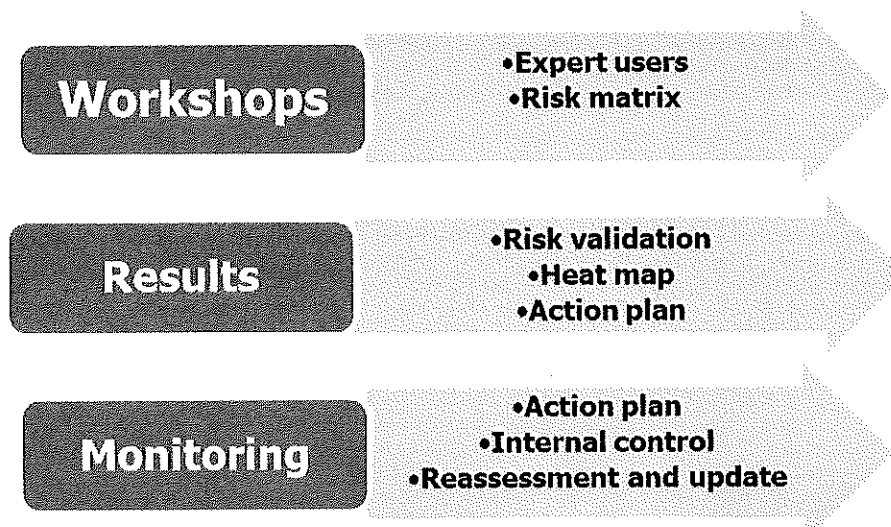
One of the Bank's fundamental principles for operational risk management is transparency, which means that all risk events should be identified, documented, and reported in order to allow the Bank to adequately measure risk events and carry out any necessary corrective, preventive, and mitigation measures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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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



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

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

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

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

#### Fair value of financial instruments

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

#### Capital management:

#### Regulatory capital

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

Management periodically monitors these requirements and reports to the board of directors on compliance. As of December 31, 2020, the Bank is above the minimum level required by applicable regulations.

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

As of December 31, 2020, the Bank's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### COVID 19 implications for the Conglomerate

The Coronavirus (COVID-19) pandemic, declared as such by the World Health Organization, has international implications. On one hand, it has caused a large number of deaths. On the other hand, markets and productive sectors have been heavily affected, due to the fear of rapid spread of the disease and to the preventive measures taken by some governments, including: social distancing, cancellation of mass events, decrease in interest rates, closing of borders, among other. This has strongly impacted the countries' economies and their production dynamic. According to the Organization for Economic Co-operation and Development (OECD), based on data as of December 2020, the global economy is expected to contract by 4.5% in 2020, the biggest contraction since 1930.

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

#### *(dd) Financially*

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

#### *(ee) Credit risk*

- The range of restructuring options was extended for these customers, aimed at easing the pressure on cash flows due to this temporary situation.
- A simplified processing system was established for payment arrangements, extensions, and restorations, offered to specific customer profiles.
- Ongoing monitoring of the application of extensions granted to affected segments.
- Follow up on the results of expected losses according to the internal model.

#### *(ff) Interest rate risk*

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

*(gg) Liquidity risk*

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

*(hh) Price risk*

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

*(ii) Currency risk*

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Collateralized or restricted assets

As of December 31, collateralized or restricted assets are as follows:

Restricted asset	Cause of restriction	2020
<i>Cash and due from banks:</i>		
Checking account – colones (Note 9)	Minimum legal deposit	¢ 471,119,415,447
Checking account – US dollars (Note 9)	Minimum legal deposit	303,912,606,319
Checking account – euro (Note 9)	Minimum legal deposit	4,365,899,890
Other cash and due from banks (Note 9)	Custody of BCAC liabilities	1,142,835,066
Other cash and due from banks (Note 9)	Contribution to FOGABONA	265,100,489
		¢ 780,805,857,211
<i>Investments in financial instruments:</i>		
Investments in financial instruments	Guarantee for tri-party repurchase agreements	¢ 8,649,884,640
Investments in financial instruments	Liquidity market operations	33,429,088,935
Securities issued by BCCR and the Government	Investments securing repurchase agreements	3,053,900,150
External debt bonds	Nomura Bank guarantee	59,031,542,209
External debt bonds	JP-SWAPS guarantee	9,178,308,496
External debt bonds	JP-SWAPS guarantee	1,240,773,951
Term Certificate of Deposit	Nomura Bank guarantee	24,692,000,000
		¢ 139,275,498,381
<i>Other assets:</i>		
Other assets (Note 17)	Security deposits	¢ 701,139,441

As of December 31, 2020, the Brokerage Firm has restricted assets in the amount of ¢42,093,256,466, corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(8) Balances and transactions with related parties

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

	2020
<u>Assets:</u>	
Checking accounts in foreign financial entities (1) (Note 9)	¢ 18,728,211,563
Investments in financial instruments and accrued interest receivable	13,138,269,284
Investments in other companies (2)	72,325,798,277
	¢ <u>104,192,279,124</u>
<u>Liabilities:</u>	
Demand obligations with entities (3) (Note 20)	817,312,947
Charges payable for obligations with related parties	1,253,627
	¢ <u>818,566,574</u>
<u>Income:</u>	
Gain on investments in other foreign companies	876,994,771
<u>Expenses:</u>	
Operating expenses	42,738,454

The aforementioned balances and transactions with related parties correspond to:

- (1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A.
- (2) Investments in the share capital of entities over which the Conglomerate exercises control or significant influence.
- (3) Movements in the subsidiaries' checking accounts with the Bank.

a) *Compensation to key personnel*

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

	2020
Short-term benefits	¢ 1,994,768,937
Long-term benefits	259,319,962
Per diem – Board of directors	202,058,176
	¢ <u>2,456,147,075</u>

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

### (9) Cash and cash equivalents

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

	2020
Cash and due from banks	¢ 1,383,902,440,319
Investments with maturities of less than two months	99,286,190,041
	¢ 1,483,188,630,360

Cash and due from banks is as follows:

	2020
Cash on hand and in vaults	¢ 71,803,663,890
Cash in transit	27,571,913,455
Checking account in BCCR (1)	35,863,230,024
Minimum legal deposits in BCCR (2)	786,744,119,464
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	163,010,654
Checking accounts and other demand accounts in private financial entities	840,634,935
Overnight deposits in local financial entities	400,000,000
Checking accounts in foreign financial entities	431,725,189,207
Deposits and other demand accounts in foreign financial entities	634,807,976
Checking accounts and demand deposits in related parties (Note 8)	18,728,211,563
Overnight deposits in foreign financial entities	1,739,101,030
Transfers through the Interbank Electronic Payment System (SINPE)	2,067,809,169
Local notes receivable	3,502,281,731
Foreign notes receivable	710,531,665
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	265,100,489
Other restricted cash and due from banks (3)	1,142,835,067
	¢ 1,383,902,440,319

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for 2020 (see Note 7).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (2) As of June 16, 2019, the percentage for the minimum legal deposit decreased to 12% and 15% in colones and US dollars, respectively, according to Note GD-5879/09 issued by BCCR on June 3, 2019. The amount of that legal deposit must be deposited in cash in BCCR in conformity with the current banking legislation. The legal deposit is calculated as a percentage of third-party deposits, which varies based on the term and form of deposit-taking used by the Bank. Additionally, the board of directors of BCCR, in number 6 of Article 5 of Minutes of Meeting No. 5923-2020, held on March 20, 2020, specifies that, during the legal deposit control period, the end-of-day balance of deposits in BCCR must not be less than 90% of the minimum legal deposit required in the second half of the previous month.
- (3) Other restricted cash and due from Banks include the Commission Agreement for the custody of liabilities, checking accounts, savings accounts and term certificates of deposit of Banco Crédito Agrícola de Cartago (see Note 7).
- (10) Investments in financial instruments

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

	2020
Investments at fair value through profit or loss	¢ 23,465,673,087
Investments at fair value through other comprehensive income	723,002,449,515
Investments at amortized cost	609,412,003,167
	¢ 1,355,880,125,769
Interest rate futures – Hedges	15,753,371,710
Allowance for impairment of investments	(2,525,392,151)
Allowance for impairment of derivative instruments other than hedges	(58,698)
Accrued interest receivable on investments	19,648,169,663
	¢ 1,388,756,216,293

a) Investments at fair value through profit or loss

As of December 31, investments at fair value through profit or loss are as follows:

	2020
<u>Local issuers</u>	
Private issuers	¢ 23,465,673,087
	¢ 23,465,673,087

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### b) Investments at fair value through other comprehensive income

As of December 31, investments at fair value through other comprehensive income are as follows:

	2020
<u>Local issuers</u>	
Government of Costa Rica	¢ 393,816,770,016
BCCR	17,463,207,857
State-owned banks	5,637,250,549
Private issuers	3,438,576,362
	¢ 420,355,804,784
<u>Foreign issuers</u>	
Governments	¢ 78,890,923,811
Private issuers	108,960,124,861
Private banks	114,795,596,059
	302,646,644,803
	¢ 723,002,449,515

### c) Investments at amortized cost

As of December 31, investments at amortized cost are as follows:

	2020
<u>Local issuers</u>	
Government of Costa Rica	¢ 256,575,723,320
BCCR	81,767,031,269
Private issuers	35,579,860,552
	¢ 373,922,615,141
<u>Foreign issuers</u>	
Governments	¢ 187,044,327,663
Private issuers	4,868,656,150
Private banks	43,576,404,213
	235,489,388,026
	¢ 609,412,003,167

As of December 31, 2020, the valuation of available-for-sale investments and restricted financial instruments gives rise to unrealized gains, net of deferred tax, in the amount of ¢2,061,632,488. The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized gains of ¢10,536,927,179.

(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 as risk hedging instruments

The Conglomerate obtained interest rate hedges to hedge exposure to the LIBOR rate on international debt issues made in October 2013 and April 2016 in US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

As of December 31, derivative financial instruments are as follows:

Issuing bank	2020		Purpose
	Notional amount	Valuation	
CitiBank	US\$ 100,000,000	US\$ 7,396,127	Swaps to hedge 10-year issues (maturing in 2023)
JP Morgan	46,533,000	3,441,640	
Bank of America	173,588,000	12,838,790	
	US\$ 320,121,000	US\$ 23,676,557	
Amount in colones	¢ 197,610,693,300	¢ 14,615,538,723	
Bank of America	US\$ 60,200,000	US\$ 352,970	Swaps to hedge 5-year issues (maturing in 2021)
JP Morgan	250,000,000	1,457,517	
	US\$ 310,200,000	US\$ 1,810,487	
Amount in colones	¢ 191,486,460,000	¢ 1,117,613,736	
Chicago Board of Trade	US\$ 12,200,000	US\$ 11,171	Standardized futures contracts (maturing in 2021)
Amount in colones	¢ 7,531,060,000	¢ 6,896,000	

As of December 31, 2020, total notional amounts of US\$642,521,000, equivalent to ¢396,628,213,300, are booked under "Other debit memoranda accounts" (see Note 29).

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

As of December 31, 2020, the Conglomerate books an increase in the fair value of these swaps in the amount of US\$25,487,044, equivalent to ₡15,733,152,459 (see Note 10).

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%.

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

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

A valuation was performed as of December 31, 2020 to calculate the change in the fair value of the primary and derivative instruments based on the following inputs:

- a 5- or 10-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2020
- only a portion of the bond cash flows is hedged (corresponding to the 5- and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest.

As of December 31, 2020, standardized futures contracts are negotiated as part of the management of the financial derivatives portfolio. The Conglomerate books a notional amount of US\$12,200,000, equivalent to ₡7,531,060,000, for the sale and purchase of these futures contracts.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2020, the Conglomerate books an increase in the fair value of futures contracts in the amount of US\$11,171 equivalent to ¢6,896,000 (see Note 10)

✓ Derivatives other than hedges

Currency forwards:

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

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

As of December 31, 2020, the total notional amount is US\$2,300,000, equivalent to ¢1,417,790,000.

As of December 31, 2020, the Conglomerate books an increase in the fair value of these forwards in the amount of ¢13,323,251 (see Note 10) under an asset account. It did not book a decrease in the fair value of these forwards, which would have been booked under a liability account.

For currency forwards, the 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 the market interest rates in colones and US dollars applicable to different terms.

As of December 31, the effect of derivative financial instruments on profit or loss is as follows:

	2020
Gains on derivative financial instruments	¢ 21,875,260,965
Losses on derivative financial instruments	(6,149,525,767)
Net gains	¢ 15,725,735,198

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(12) Loan portfolio

(a) Loan portfolio by sector

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

	2020
Trade	¢ 366,543,473,364
Services	882,958,009,616
Financial services	86,384,902,878
Mining	723,836,045
Manufacturing and quarrying	154,439,840,021
Construction	97,117,113,215
Agriculture and forestry	119,176,139,304
Livestock, hunting and fishing	73,609,723,660
Electricity, water, sanitation and other related sectors	483,518,311,261
Transportation and telecommunications	46,878,351,392
Housing	1,317,083,078,572
Personal or consumer loans	528,808,645,806
Tourism	201,470,966,486
	<u>4,358,712,393,620</u>
Incremental direct costs related to loans	3,756,519,754
(Deferred income from loan portfolio)	(33,106,164,873)
Accrued interest receivable	122,742,551,278
Allowance for loan losses	(155,527,961,609)
	<u>¢ 4,296,577,338,170</u>

Annual interest rates on loans receivable are as follows:

	2020
Currency	Rates
Colones	2.00% to 45.00%
US dollars	0.24% to 31.00%
DU	3.85% to 10.00%

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Loan portfolio by arrears

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

	2020
Current	¢ 4,116,568,006,122
1 to 30 days	39,182,017,579
31 to 60 days	29,640,705,064
61 to 90 days	11,541,663,555
91 to 120 days	1,870,053,553
121 to 180 days	1,892,441,550
More than 180 days	14,217,884
In legal collection	158,003,288,313
	<hr/> 4,358,712,393,620
Incremental direct costs related to loans	3,756,519,754
(Deferred income from loan portfolio)	(33,106,164,873)
Accrued interest receivable	122,742,551,278
Allowance for loan losses	(155,527,961,609)
	<hr/> ¢ 4,296,577,338,170

(c) Allowance for loan losses

For the year ended December 31, movement in the allowance for loan losses is as follows:

	2020
Opening balance	¢ 118,507,110,835
Allowance expense for the year (Note 39)	68,378,115,626
Write-offs	(34,781,370,191)
Adjustments due to reclassification of allowance	147,982,736
Foreign exchange differences	3,276,122,603
Closing balance	¢ 155,527,961,609

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2020
Opening balance	¢ 147,982,736
Allowance expense for the year (Note 36)	545,025,566
Foreign exchange differences	24,436,202
Closing balance	¢ 717,444,504

(13) Accounts and fees and commissions receivable

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

	2020
Fees and commissions	¢ 1,378,393,151
Accounts receivable for brokerage operations	5,728,706
Accounts due from employees	19,025,296
Deferred tax (Note 21-b)	26,954,118
Income tax receivable (1)	143,693,108
Value added tax	17,962,034
Sundry accounts receivable related to credit cards	237,913,865
Other expenses receivable	22,525,394
Other accounts receivable	4,065,600,613
Accrued interest receivable on other sundry accounts receivable	2,991,594
Allowance for impairment of accounts receivable	(4,217,937,702)
	¢ 1,702,850,177

(1) As of December 31, income tax receivable is as follows:

	2020
Banco Nacional de Costa Rica	¢ 143,613,342
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	79,766
	¢ 143,693,108

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

For the year ended December 31, movement in the allowance for impairment of other accounts receivable is as follows:

	2020
Opening balance	¢ 4,439,440,280
Allowance expense (Note 39)	1,080,131,153
Decrease in allowance (Note 40)	(752,680,302)
Write-offs	(574,231,463)
Foreign exchange differences	25,278,034
Closing balance	¢ 4,217,937,702

### (14) Foreclosed assets

As of December 31, foreclosed assets are presented net of the allowance for impairment and per legal requirements are as follows:

	2020
Assets received in lieu of payment	¢ 98,844,527,473
Idle property, furniture and equipment	55,884,629
Allowance for impairment and per legal requirements	(66,534,513,087)
	¢ 32,365,899,015

For the year ended December 31, movement in the allowance for impairment of foreclosed assets and per legal requirements is as follows:

	2020
Opening balance	¢ 63,718,411,084
Allowance expense (Note 43)	9,628,924,296
Decrease in allowance	(6,812,822,294)
Closing balance	¢ 66,534,513,087

### (15) Investments in other companies

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

	2020
Investment in other financial and non-financial entities (1)	20,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (2)	72,376,421,644
	¢ 72,427,044,914

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	<u>2020</u>
Investments to operate in the electronic custody of securities:	
Interclar Central de Valores	15,000,000
Depósito Libre Comercial Golfito (Golfito Duty Free Shopping Center) per Article 24 of Law No. 7131	5,200,000
Other financial entities (cooperatives)	<u>423,300</u>
	¢ <u>20,623,300</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) *Historical cost and depreciation*

As of December 31, property, furniture and equipment is as follows:

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

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

At the December 2020 close, 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*

As of December 31, the right of use comprises the lease of land and building as follows:

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

(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:

Interest on lease liability	¢ 3,642,278,776
Expenses for leases of low-value assets, excluding short-term assets	¢ 132,239,095

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

Total cash outflows for leases	¢ 2,051,296,709
--------------------------------	-----------------

(17) Other assets

As of December 31, other assets are as follows:

	2020
<u>Deferred charges:</u>	
Leasehold improvements (1)	¢ 109,029,869
Cost of issue of financial instruments, net (2)	383,327,082
Cost of subordinated debt project	215,689,311
Other deferred charges	42,613,181,701
	43,321,227,963
<u>Intangible assets:</u>	
Software (3)	5,295,527,348
Other intangible assets (3)	4,874,124
	5,300,401,472
<u>Other assets:</u>	
Prepaid taxes	1,593,775,802
Prepaid insurance policy	169,380,002
Other prepaid expenses	7,866,604,530
Stationery, office supplies and other materials	913,024,907
Leased assets	121,506,085
Library and artwork	404,704,948
Construction work in progress	1,383,200,612
Automated applications under development	88,151,366
Payments to welfare and trade associations	600,000
Other sundry assets	158,557,669
Operations pending settlement	21,965,902,330
Other operations pending application	118,059,154
Security deposits (Note 7)	460,789,956
Legal and administrative deposits (Note 7)	240,349,485
	35,484,606,846
	¢ 84,106,236,281

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (1) As of December 31, the amortization expense for leasehold improvements amounts to ₡225,127,519.
- (2) As of December 31, costs related to the issue of financial instruments are as follows:

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with the public

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

	<u>2020</u>
<i><u>Demand deposits:</u></i>	
Checking accounts	¢ 1,722,635,196,234
Certified checks	158,566,763
Savings deposits	1,793,268,825,369
Matured term deposits	21,038,851,425
Other demand deposits	126,026,584
Drafts and transfers payable	402,866,378
Cashier's checks	2,853,421,177
Advance collections from customers for credit cards	11,366,072,439
Banking mandates	1,142,835,067
Trust fund obligations	70,824,810
	<u>3,553,063,486,246</u>
<i><u>Term deposits:</u></i>	
Deposits from the public	1,938,769,672,856
Other term deposits	97,766,851,400
	<u>2,036,536,524,256</u>
Obligations for tri-party repurchase agreements	7,873,700,508
Finance charges payable	36,616,428,702
	<u>¢ 5,634,090,139,712</u>

As of December 31, 2020, deposits in checking accounts in colones bear interest at a maximum rate of 1.15% per annum on full balances and at a minimum rate of 0.65% per annum on balances greater than or equal to ¢500,001. Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.25% per annum on full balances and at a minimum rate of 0.10% per annum on balances greater than or equal to US\$1,000.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Currency	2020
Colones	1.25% to 6.75%
US dollars	0.20% to 3.90%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2020, the balance of those term certificates of deposit is ₡80,013,679,833. As of that date, the Conglomerate has no inactive deposits with State-owned entities or other banks.

(19) Obligations with BCCR

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

	2020
Financing of loans using external funds (i)	₡ 125,644,412
Other term obligations with BCCR (ii)	27,484,690,997
Interest payable on obligations with BCCR (ii)	21,181,478
	₡ 27,631,516,887

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

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

	2020
<i><u>Demand:</u></i>	
Checking accounts with local financial entities	¢ 63,081,831,168
Savings deposits with local financial entities	52,978,622
Outstanding checks	1,319,135,518
Matured term deposits	4,150,001
Checking accounts and obligations with related parties (Note 8)	817,312,947
	<u>65,275,408,256</u>
<i><u>Term:</u></i>	
Term deposits with local financial entities	81,249,784,724
Term obligations with foreign financial entities (2)	400,679,619,801
Loans from local financial entities (3)	30,060,611,046
Loans from foreign financial entities (3)(4)	114,374,846,095
Lease liabilities (1)	37,044,902,529
Obligations with funds from the Development Credit Fund	167,991,227,096
	<u>831,400,991,291</u>
(Deferred fees and commissions on own loan portfolio)	(49,567,474)
	<u>(49,567,474)</u>
Charges payable for other demand and term obligations with financial entities – foreign currency	23,373,089
Charges payable for other demand and term obligations with financial entities – local currency	373,012,120
Charges payable for loans with foreign financial entities (2)(3)	534,786,904
Charges payable for loans with local financial entities (2) (3)	63,322,482
Charges payable for term deposits with foreign financial entities (1)	4,120,913,505
	<u>5,115,408,100</u>
	<u>¢ 901,742,240,173</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) *Lease liabilities*

As of December 31, 2020, long-term lease liabilities and their current portion amount to ₡6,852,361,433 and US\$48,910,645.74, for a total in colones of ₡37,044,903,048.30, using the exchange rate of ₡617.30.

Lease liabilities include 79 lease operations, of which 15 operations are denominated in colones, with rates ranging between 11.80% and 13.63% per annum and maturing between 2022 and 2042, and 64 operations are denominated in US dollars, with rates ranging between 8.80% and 8.85% per annum and maturing between 2021 and 2041.

Future minimum lease payments are as follows:

	<u>Future minimum lease payments</u>	<u>Interest</u>	<u>Present value of minimum lease payments</u>
Less than one year	₡ 5,433,282,200	3,325,120,176	2,108,162,024
Between one and five years	25,042,228,407	14,413,067,406	10,629,161,001
More than five years	36,156,589,332	11,849,009,827	24,307,579,504
	<u>₡ 66,632,099,939</u>	<u>29,587,197,409</u>	<u>37,044,902,529</u>

As of December 31, 2020, the reconciliation of the lease liabilities with cash flows from financing activities for the year beginning on January 1, 2020 is as follows:

Balance at January 1, 2020	₡	39,659,283,341
Cash flows from financing activities:		
New financial obligations		551,066,231
Settlements or withdrawals		(3,885,042,932)
Payment of obligations		(2,051,296,709)
Adjustments		660,828,920
Total cash flows from financing activities		(4,724,444,490)
Related to liabilities:		
Interest expense		7,733,340
Interests paid		(16,246,185)
Foreign exchange differences		2,118,576,523
Total – Related to liabilities		2,110,063,678
Balance at December 31, 2020	₡	<u>37,044,902,529</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

As of December 31, the balances of those issues according to the term of the obligations are as follows:

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

(3) As of December 31, the maturity of loans and term obligations due to financial entities is as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of December 31, the reconciliation of notes payable with cash flows from financing activities, as required by IAS 7 for years beginning as of January 1, 2019, is as follows:

	2020
Balance at beginning of year	¢ 135,780,260,555
New financial obligations	38,326,617,261
Settlement of financial obligations	(39,250,574,578)
Foreign exchange differences	9,579,153,903
Cash flows from financing activities	8,655,196,586
Balance at end of year	¢ 144,435,457,141

(21) Income tax

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

a) Income tax for the year

For the year ended December 31, the income tax expense is as follows:

	2020
<u>Current tax:</u>	
Income tax expense for the year	¢ 17,056,944,248
Prior-period income tax expense	14,242,766,521
	31,299,710,769
<u>Deferred tax:</u>	
Deferred tax expense	1,588,064,192
Deferred tax income	(2,214,501,920)
Total deferred tax expense, net	(626,437,728)
Income tax expense, net	¢ 30,673,273,041

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, the difference between the income tax expense and the amount that would result from applying the corresponding tax rate to pre-tax income (30%) is reconciled as follows:

	2020
Income before income tax	¢ 57,700,017,923
<i>Plus (less) tax effect of:</i>	
Non-deductible expenses	17,790,297,778
Deductible expenses	(10,733,894,106)
Non-taxable income	(7,899,940,783)
Tax base	56,856,480,812
Tax rate	30%
Subtotal income tax expense	17,056,944,248
Prior-period income tax expense	14,242,766,521
Deferred tax expense	1,588,064,192
Deferred tax income	(2,214,501,920)
Subtotal deferred tax expense	(626,437,728)
Income tax expense, net	¢ 30,673,273,041

b) Deferred tax

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

	2020		
	Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢ 518,956,287		518,956,287
Provisions	200,148,114		200,148,114
Right-of-use assets	953,132,437		953,132,437
Impairment of investments	12,686,297		12,686,297
Asset depreciation	12,376,426	(12,030,293)	346,133
Lease liabilities		(1,221,832)	(1,221,832)
Unrealized gains on valuation of investments		(2,904,593,681)	(2,904,593,681)
Revaluation of property		(9,136,423,689)	(9,136,423,689)
Tax base of property and equipment		(3,739,156,241)	(3,739,156,241)
	¢ 1,697,299,561	(15,781,395,443)	(14,084,095,882)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2019	Included in the income statement	Included in equity	2020
Unrealized losses on valuation of investments	¢ 1,049,189,321	-	(530,233,034)	518,956,287
Provisions	198,437,376	1,710,738	-	200,148,114
Right-of-use assets	-	971,338,597	(18,206,160)	953,132,437
Impairment of investments	-	12,686,297	-	12,686,297
Asset depreciation	-	346,133	-	346,133
Lease liabilities	-	(1,221,832)	-	(1,221,832)
Unrealized gains on valuation of investments	(4,547,196,438)	-	1,642,602,757	(2,904,593,681)
Revaluation of property	(9,506,392,781)	-	470,273,651	(9,036,119,130)
Tax base of property, furniture and equipment	-	(358,422,205)	(3,469,008,302)	(3,827,430,507)
	¢ (12,805,962,522)	626,437,728	(1,904,571,088)	(14,084,095,882)

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

As of December 31, the Bank has not recognized a deferred tax liability in the amount of ¢4,651,425,169, given that it controls the moment when the subsidiaries pay dividends.

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

(22) Provisions

As of December 31, provisions are as follows:

	2020
Severance benefits	¢ 314,133,990
Litigation	6,952,427,372
Inactive checking and savings accounts liquidated	759,171,321
Manager commissions	15,931,625,072
Variation in RIVM methodology	490,003,103
Notice of deficiency	3,736,545,365
Other	457,979,172
	¢ 28,641,885,395

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the year ended December 31, movement in provisions is as follows:

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

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

Type		2020	2020
		Claimed amount	Provision
Ordinary - in colones	¢	18,699,964,447	4,196,881,474
Ordinary - in US dollars		132,624,641,534	2,188,079,724
Criminal - in colones		1,020,877,223	-
Labor - in colones		879,064,573	567,466,174
	¢	153,224,547,777	6,952,427,372

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Other sundry accounts payable

As of December 31, other sundry accounts payable are as follows:

	2020
Professional fees	¢ 1,514,875
Creditors - goods and services	7,348,831,124
Income tax	1,760,368,473
Value added tax	271,040,616
Employer contributions	7,611,217,677
Court-ordered withholdings	3,642,750,117
Tax withholdings	2,145,519,550
Employee withholdings	736,355,713
Other third-party withholdings	187,242,872
Compensation	10,053,389,163
Statutory allocations	12,318,653,859
Obligations on loans with related parties	200,171
Clearing house operations	207,654,419
Accrued vacation	4,463,928,317
Accrued statutory Christmas bonus	1,343,813,548
Contribution to the superintendencies' budget	6,111,241
Foreclosed assets	198,833,316
Provisional deposits for the payment of premiums	2,063,670,964
Direct contracts with the Government Purchases department – various	974,210,561
Accounts due to customers (1)	13,575,039
Merlink guarantees	1,422,035,747
Amounts received for partial sales of foreclosed assets	635,281,514
Allocation for petty cash differences	583,322,866
Other various creditors	2,974,402,146
	¢ <u>60,963,923,888</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

As of December 31, other liabilities are as follows:

	2020
<u>Deferred income:</u>	
Deferred fees and commissions for trust management	¢ 72,347,267
	<u>72,347,267</u>
<u>Operations pending application:</u>	
Operations pending settlement	25,188,593,904
Other operations pending settlement	11,791,173,966
	<u>36,979,767,871</u>
	¢ <u>37,052,115,137</u>

(25) Subordinated obligations

As of December 31, subordinated obligations are as follows:

Annual interest rate	Term	Maturity		2020
6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10 years	05/27/2024	US\$	70,000,000
6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15 years	10/23/2029		27,000,000
			US\$	<u>97,000,000</u>
Total equivalent in colones			¢	59,878,100,000
Finance charges payable				1,071,913,196
			¢	<u>60,950,013,196</u>

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

As of December 31, the Conglomerate's share capital is as follows:

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

#### (b) Capital reserves

As of December 31, capital reserves are as follows:

	2020
Legal reserve	¢ 359,235,472,801
Statutory reserve for foreclosed assets	1,730,214,922
Excess of statutory reserve for loans	8,231,223,420
Statutory dynamic provision	12,165,679,183
	<u>¢ 381,362,590,326</u>

#### (c) Equity of the Development Financing Fund

the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢39,043,365,123.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(27) Commitments and contingencies

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

	2020
Performance bonds	¢ 43,130,640,271
Bid bonds	3,226,116,392
Other guarantees	698,212,573
Letters of credit	2,514,802,830
Credits pending disbursement	130,054,473
	<u>49,699,826,539</u>
Pre-approved lines of credit	276,948,161,866
Other contingencies not related to credits	83,658,102
Other contingencies - Pending litigation and lawsuits (Note 47)	<u>153,220,867,807</u>
	<u>430,252,687,775</u>
Sales of FX futures - Other than hedges	1,419,790,000
	¢ <u>481,372,304,314</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. Most letters of credit are used and those used are generally available on demand, issued, and confirmed by correspondent banks and payable immediately.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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. The Conglomerate receives a fee for providing those services. Those assets, liabilities, and equity are not recognized in the Conglomerate's 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 by the Conglomerate 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 December 31, 2020, trust capital is invested in the following assets:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

h) Custody of stock with testamentary clause

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

(29) Other debit memoranda accounts

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

	2020
Pension Fund Manager's own investments in custody – Face value of principal (unaudited)	9,429,338,000
Pension Fund Manager's own investments in custody – Coupons (unaudited)	4,075,938,978
Pension Fund Manager's own investments in custody – Number of shares (unaudited)	23
Guarantees received in the Bank's custody	189,575,678
Guarantees on financial instruments	70,693,196
Other guarantees received in the Bank's custody	6,552,472,403,964
Lines of credit granted but unused	406,505,614,639
Loans pending disbursement	172,571,373,581
Unused overdrafts	111,415,987
Loans settled	338,806,069,999
Other accounts receivable settled	14,954,527,504
Accrued interest receivable settled	30,839,072,824
Interest income on non-accrual loans of loan portfolio	30,647,147,213
Supporting documentation received in the Bank's custody	2,384
Securities issued pending placement	6,248,000,000
Lines of credit or overdrafts obtained but unused	6,173,000,001
Notified letters of credit	4,025,233,726
Notional value subject to interest rate futures (Note 11)	396,628,213,300
Reversals made to income accounts for the year	30,789,263,983
Reversals made to expense accounts for the year	52,976,645,521
Non-deductible expenses	12,389,918,809
Non-taxable income	13,624,603,217
Other memoranda accounts	233,695,482,469
	<u>8,317,223,534,996</u>
Third-party debit memoranda accounts (1)	4,073,078,162,064
Own debit memoranda accounts for custodial activities	654,639,927,606
Third-party debit memoranda accounts for custodial activities	13,623,002,247,628
	<u>18,350,720,337,298</u>
	¢ <u>26,667,943,872,294</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2020
Management of banking mandates	¢ 1,520,637,448,493
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	586,174,589
Pension funds	1,855,825,633,619
Investment funds	599,338,640,487
Portfolio management	96,690,264,876
	¢ <u>4,073,078,162,064</u>

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

	2020
Banco Nacional de Costa Rica	¢ 22,998,578,779,433
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,199,940,596,159
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	599,380,399,441
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	1,870,044,097,261
	¢ <u>26,667,943,872,294</u>

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

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

	2020
<u>Own</u>	
Repurchase agreements pending settlement	27,822,802,865
Trading securities	10,632,564,333
Other own memoranda accounts	6,188,599,825
	<u>44,643,967,023</u>
<u>Third party</u>	
Trading securities received as guarantees	50,665,637,576
Trading securities pending receipt	595,724,740
Signed contracts pending settlement	607,155,839
Futures contracts pending settlement	99,220,900,519
Third-party trading securities	905,827,763,172
Cash and accounts receivable	1,689,182,414
Portfolio management	96,690,264,876
	<u>1,155,296,629,136</u>
Memoranda accounts (Note 29)	¢ <u>1,199,940,596,159</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Location	Type of custody	2020
<u><i>Own custodial activities</i></u>		
Local	CEVAL - private	¢ 8,531,644,481
Local	CEVAL - public	2,075,107,850
Local	Vault	25,812,002
		<u>10,632,564,333</u>
<u><i>Custodial activities on behalf of third parties</i></u>		
Local	CEVAL - private	148,595,058,738
Foreign	CEVAL - private	45,650,673,594
Local	CEVAL - public	679,962,300,406
Foreign	International custody	31,386,477,267
Local	Vault	8,024,829
Local- Foreign	Securities that are doubtful, in arrears or in litigation	225,228,338
		<u>905,827,763,172</u>
		<u>¢ 916,460,327,505</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2020								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,778,157,014	20,519,423	12,666,640,076	27,444,797,090	378,005,775	-	-	378,005,775
Third parties	8,292,932,359	82,970,076	51,217,427,962	59,510,360,321	5,163,086,516	55,965,420	34,547,453,682	39,710,540,198
	<u>23,071,089,373</u>	<u>103,489,499</u>	<u>63,884,068,038</u>	<u>86,955,157,411</u>	<u>5,541,092,291</u>	<u>55,965,420</u>	<u>34,547,453,682</u>	<u>40,088,545,973</u>

As of December 31, 2020, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ₡617.30 to US\$1.00.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, the maturity structure of term buyer and seller positions in tri-party repurchase agreements involving the Brokerage Firm is as follows:

		2020			
		Term buyer		Term seller	
		Colones	US dollars	Colones	US dollars
<i>Own</i>					
1 to 30 days	¢	250,302,083	3,951,556	378,005,775	-
31 to 60 days		10,014,804,931	5,683,823	-	-
61 to 90 days		4,513,050,000	7,843,060	-	-
More than 91 days		-	3,040,984	-	-
		<u>14,778,157,014</u>	<u>20,519,423</u>	<u>378,005,775</u>	<u>-</u>
<i>Third-party</i>					
1 to 30 days		-	575,019	108,457,585	1,187,828
31 to 60 days		4,084,643,791	22,104,430	2,235,689,902	17,223,348
61 to 90 days		2,476,271,077	57,867,661	1,086,921,539	33,537,433
More than 91 days		1,732,017,491	2,422,966	1,732,017,490	4,016,811
		<u>8,292,932,359</u>	<u>82,970,076</u>	<u>5,163,086,516</u>	<u>55,965,420</u>
	¢	<u>23,071,089,373</u>	<u>103,489,499</u>	<u>5,541,092,291</u>	<u>55,965,420</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

As of December 31, the Investment Fund Manager's memoranda accounts are as follows:

Fund	2020		Value per share
	Net value	Shares	
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 159,913,058,406	36,189,890,278	4.42
Fon Depósito colones	53,278,456,527	33,366,868,091	1.60
Creci Fondo colones	5,221,155,219	832,459,697	6.27
Redi Fondo colones	31,113,269,466	6,956,686,954	4.47
Diner Fondo colones	66,268,861,020	22,407,606,438	2.96
	<u>¢ 315,794,800,638</u>	<u>99,753,511,458</u>	
<i>Funds in US dollars:</i>			
Súper Fondo US dollars	US\$ 16,302,679	10,534,970	1.55
Creci Fondo US dollars	8,124,266	3,961,302	2.08
Redi Fondo US dollars	24,551,817	14,460,492	1.72
Diner Fondo US dollars	133,356,773	98,549,530	1.35
Fon Depósito US dollars	59,452,638	51,920,407	1.15
Súper Fondo Plus US dollars	188,299,180	167,210,990	1.13
BN Infraestructura Pública -1	29,241,725	21,750	1,344.45
	<u>US\$ 459,329,078</u>	<u>346,659,441</u>	
	<u>¢ 283,543,839,849</u>	<u>213,992,872,929</u>	
Assets of managed funds	<u>¢ 599,338,640,487</u>	<u>313,746,384,387</u>	
<i>Guarantees:</i>			
Performance bonds	39,783,649	-	
Outstanding checks	1,975,305	-	
	<u>41,758,954</u>	-	
Memoranda accounts (Note 29)	<u>¢ 599,380,399,441</u>	-	

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

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *BN CreciFondo dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) growth fund with a variable income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN RediFondo Trimestral - US dólares No Diversificado (quarterly, non-diversified - US dollars)*: This is an open-end (floating number of outstanding shares) income fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN DinerFondo dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN FonDepósito dólares No Diversificado* (non-diversified - US dollars): This is an open-end (floating number of outstanding shares) money market fund with a fixed income portfolio. Returns on the investment portfolio are not distributed until the customer requests partial or full redemption of shares.
- *BN SuperFondo Dólares Plus No Diversificado (US dólares)* (non-diversified - US dollars): This fund is aimed at conservative investors looking for short-term investments and who are to manage capital or funds in transit, with a minimum recommended period of 5 days. The funds can be requested at any time and are deposited on the next day, complying with the cutoff time and generating no withdrawal commissions. Benefits are calculated and applied on a daily basis but are effective when a partial or total withdrawal of the investment takes place. The fund has monthly statements of account.
- *Fondo de Inversión de Desarrollo Inmobiliario BN-1*: (real estate development): This fund invests in the development and exploitation of buildings to be leased by Banco Nacional de Costa Rica for a defined term. As of December 31, 2020, this fund does not have operations
- *Fondo de Inversión de Desarrollo Inmobiliario de Infraestructura Pública – 1*: (real estate development - US dollars): This fund will invest in the construction of buildings to be occupied by the Maximum Deconcentration Organizations and other entities of BCCR. Once the works are completed, the buildings will be leased with a purchase option to BCCR or sold to BCCR or to a real estate fund managed by BN Fondos and investors thus realize their potential gains. If the buildings are sold to a real estate fund, such fund will lease the buildings to BCCR.

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- *BN Internacional Valor No Diversificado (non-diversified - US dollars):* This is an international, mixed portfolio investment fund, ideal for conservative customers who primarily seek to maintain their capital, even if it entails obtaining returns much lower than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and investment funds. As of December 31, 2020, this fund does not have operations.
- *BN Internacional Suma No Diversificado (non-diversified - US dollars):* This is an international, mixed portfolio investment fund, addressed to investors with a balanced-risk profile, that is, willing to assume losses in the short- and mid-term to obtain returns higher than those of the market in the mid- and long-term. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of December 31, 2020, this fund does not have operations.
- *BN Internacional Crece No Diversificado (non-diversified - US dollars):* This is a long term, international, mixed portfolio investment fund addressed to investors with an aggressive-risk profile, i.e. willing to assume significant losses while aiming to obtain returns higher than those of the market. It is addressed to the investor that would like to invest in a portfolio comprised of debt securities issued by the public or private sector and in variable-return instruments and investment funds. As of December 31, 2020, this fund does not have operations.
- *Fondo de Inversión BN Internacional Liquidez No Diversificado (non-diversified liquidity investment fund):* This is fund is an international investment fund aimed at conservative investors looking or short-term investments. It is a good alternative for meeting present or future liquidity needs. The long-term fund is aimed at investors looking for meeting future liquidity needs. As of December 31, 2020, this fund does not have operations.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(32) Pension fund management agreements

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

	2020
Mandatory Pension Fund (ROP)	¢ 1,568,262,512,253
Mandatory Retirement Savings Account (FCL)	122,988,992,552
Voluntary Pension Fund in Colones A (FPC A)	103,790,134,959
Voluntary Pension Fund in Colones B (FPC B)	26,871,870,999
Notary Guarantee Fund	5,857,445,268
Voluntary Pension Fund in US dollars A (FPD A) (i)	17,779,237,903
Voluntary Pension Fund in US dollars B (FPD B) (ii)	10,275,439,685
Assets of managed funds (Note 29)	<u>1,855,825,633,619</u>
Securities and assets in own custody	13,505,277,001
Bid and performance bonds – colones	32,037,733
Bid and performance bonds – US dollars (iii)	94,974,321
Securities in DU	<u>586,174,587</u>
Memoranda accounts (Note 29)	¢ <u>1,870,044,097,261</u>

- i. As of December 31, 2020, this fund amounts to US\$28,801,617 and is valued at the exchange rate of ¢617.30 per US\$1.00.
- ii. As of December 31, 2020, this fund amounts to US\$16,645,779 and is valued at the exchange rate of ¢617.30 per US\$1.00.
- iii. As of December 31, 2020, this fund amounts to US\$153,854 and is valued at the exchange rate of ¢617.30 per US\$1.00.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(33) Income from financial instruments

For the year ended December 31, income from financial instruments are as follows:

	<u>2020</u>
<u>Cash and due from banks:</u>	
Deposits in BCCR	4,118,896
Checking accounts and demand deposits in local entities	39,370,992
Checking accounts and demand deposits in foreign entities	¢ 2,515,292,365
	<u>2,558,782,253</u>
<u>Financial instruments:</u>	
Investments at fair value through profit or loss	1,417,195,881
Investments at fair value through other comprehensive income	40,760,458,359
Investments at amortized cost	28,115,635,099
Investments in past due and restricted securities	604,422,524
	<u>70,897,711,863</u>
	¢ <u>73,456,494,116</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

For the year ended December 31, finance income from the loan portfolio is as follows:

	<u>2020</u>
<i><u>Current loans:</u></i>	
Individuals	¢ 165,941,494,536
Development Banking System	5,780,524,887
Business	73,586,289,109
Corporate	73,009,397,071
Public sector	10,713,820,757
Financial sector	<u>6,920,473,622</u>
	<u>335,951,999,982</u>
<i><u>Past due loans and loans in legal collection:</u></i>	
Individuals	24,636,637,061
Development Banking System	656,321,295
Business	11,612,253,549
Corporate	2,716,652,384
Public sector	210,000,092
Financial sector	3,055,674
In legal collection	9,087,419,162
Amortization of net commission of incremental direct costs related to credits	<u>1,141,043,704</u>
	<u>50,063,382,921</u>
	<u>¢ 386,015,382,903</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

For the year ended December 31, other finance income is as follows:

	2020
Fees and commissions on letters of credit	¢ 13,848,543
Fees and commissions on guarantees granted	932,657,835
Gain on sale of financial instruments	256,969,387
Gain on fair value hedge for item measured at cost	11,879,978,245
Other sundry finance income	3,580,915,994
	¢ 16,664,370,004

(36) Finance costs for obligations with the public

For the year ended December 31, finance costs for obligations with the public are as follows:

	2020
Demand deposits	¢ 53,061,754,980
Term deposits	114,964,243,581
Third-party repurchase agreements and securities lending	351,367,783
	¢ 168,377,366,344

(37) Finance costs for obligations with financial entities

For the year ended December 31, finance costs for obligations with financial entities are as follows:

	2020
Demand obligations	¢ 2,001,185,442
Term obligations	44,554,069,473
	¢ 46,555,254,915

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other finance costs

For the year ended December 31, other finance costs are as follows:

	2020
Fees and commissions on letters of credit obtained	¢ 155,017,758
Loss on hedged item measured at cost from fair value hedge on interest rate risk	19,647,978,819
Other sundry finance costs	858,633,487
	¢ 20,661,630,064

(39) Expenses for allowance for impairment of assets

For the year ended December 31, expenses for allowance for impairment of assets are as follows:

	2020
Allowance for loan losses (Note 12)	¢ 64,281,438,659
Allowance for impairment of other accounts receivable (Note 13)	1,080,131,153
Allowance for stand-by credit losses (Note 12 and Note 24)	401,000,000
General and counter-cyclical allowance for loan portfolio (Note 12)	3,551,651,401
General and counter-cyclical allowance for stand-by credit losses (Note 12 and 24)	144,025,566
Allowance for impairment of investments at fair value through other comprehensive income	639,040,017
Allowance for impairment of financial instruments at amortized cost	1,852,022,824
Allowance for impairment of operations with derivative financial instruments (Note 10)	82,044,547
Allowance for impairment of past due and restricted financial instruments	36,840
	¢ 72,031,391,007

(Continued)



BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

For the year ended December 31, income from recovery of assets and decreases in allowances and provisions is as follows:

	2020
Recovery of loan write-offs	¢ 8,288,214,341
Recovery of accounts receivable write-offs	1,518,313
Decrease in allowance for impairment of other accounts receivable (Note 13)	752,680,302
Decrease in allowance for impairment of investments in financial instruments (Note 10)	553,730,016
	¢ <u>9,596,142,972</u>

(41) Income from service fees and commissions

For the year ended December 31, operating income from service fees and commissions is as follows:

	2020
Drafts and transfers	¢ 8,799,149,446
Certified checks	2,726,197
Trusts	1,591,260,411
Custodial services	1,765,171,358
Banking mandates	172,009
Collections	15,747,309
Credit cards	54,843,227,150
Management services	3,734,313,322
Management of investment funds	6,738,982,746
Management of pension funds	8,923,976,553
Insurance underwriting	7,690,489,432
Brokerage operations (third parties in local market)	2,769,913,905
Brokerage operations (third parties in other markets)	315,596,075
Transactions with related parties	36,002,807
Commissions charged to other affiliates due to covenants	12,015,356,868
Servibanca local interchange	22,013,710,840
Other service fees and commissions	7,363,903,211
	¢ <u>138,619,699,639</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

For the year ended December 31, other operating income is as follows:

	2020
Recovery of expenses (1)	¢ 4,175,264,915
Net valuation of other assets (Note 6)	1,130,256,775
Other income from accounts receivable	3,309,730
Savings accounts liquidation	204,079,840
Administrative charges - VISA	1,476,263,489
Liquidation of term certificate of deposit not claimed	585,640,409
Withholdings from vendors	208,090,012
Investments in companies	742,690,696
Excess cash from human teller	141,985,000
Sundry operating income	1,316,832,211
Decrease in provisions	7,224,744,818
	¢ <u>17,209,157,895</u>

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

(43) Expenses for foreclosed assets

For the year ended December 31, expenses for foreclosed assets are as follows:

	2020
Property and other assets acquired in lieu of payment	¢ 80,271,714
Loss on sale of assets awarded in judicial auctions	6,206,194,397
Management of assets received in lieu of payment	20,071,031
Management of assets awarded in judicial auctions	4,649,099,639
Property and other assets acquired in lieu of payment (Note 14)	58,468,041
Loss on allowance for impairment of foreclosed assets and per legal requirement (Note 14)	9,570,456,255
Other expenses for foreclosed assets	31,918,043
	¢ <u>20,616,479,120</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(44) Provision expenses

For the year ended December 31, provision expenses are as follows:

	2020
Severance benefits	¢ 91,966,068
Pending litigation	787,932,164
"BN Premios" points program	1,932,421,215
Case of the manager commissions with CCSS	836,629,027
Case of the RIVM contribution	600,920,714
Notice of deficiency	1,466,703,475
Other provisions	1,686,094,811
	¢ <u>7,402,667,474</u>

(45) Other operating expenses

For the year ended December 31, other operating expenses are as follows:

	2020
Penalties for noncompliance with regulatory legal provisions	¢ 6,300
Net valuation of other liabilities (Note 6)	1,410,449,477
Value-added tax expense	950,123,482
Income tax on foreign remittances	6,899,689
Property tax	244,378,893
Patents	1,216,734,962
Other local taxes	85,911,747
Other foreign taxes	4,223
Transfer to FINADE	2,871,963,353
Amortization of deferred direct costs related to loans	354,524,714
Costs of microfinance insurance policies	3,250,058,530
Authorization abroad	1,611,367,730
Base I and II fund disbursements	14,085,175,314
Software maintenance and licenses	12,612,894,600
Sundry operating expenses	14,139,596,874
Other expenses for sundry assets	216,984
	¢ <u>52,840,306,872</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Personnel expenses

For the year ended December 31, personnel expenses are as follows:

	2020
Salaries and bonuses, permanent staff	¢ 69,855,000,577
Salaries and bonuses, contractors	1,265,731,204
Compensation for directors and statutory examiners	235,806,191
Overtime	533,391,364
Travel expenses	240,985,579
Statutory Christmas bonus	7,309,681,801
Vacation	5,576,589,006
Incentives	4,043,308,220
Other compensation	3,916,091,518
Severance benefits	4,249,791,113
Employer social security taxes	27,578,405,205
Refreshments	355,202,902
Uniforms	438,029,495
Training	480,279,392
Employee insurance	224,743,753
Back-to-school bonus	6,238,808,962
Mandatory retirement savings account	2,615,711,022
Other personnel expenses	862,919,755
	¢ <u>136,020,477,059</u>

(47) Other administrative expenses

For the year ended December 31, other administrative expenses are as follows

	2020
Outsourcing	¢ 22,457,319,708
Transportation and communications	3,729,222,056
Infrastructure	27,736,949,995
Overhead	18,295,482,203
	¢ <u>72,218,973,962</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Statutory allocations

For the year ended December 31, statutory allocations are as follows:

	2020
CONAPE - 5%	¢ 2,535,644,078
CNE - 3%	1,730,884,422
INFOCOOP - 10%	3,506,651,920
Public capital pension operators	1,335,721,627
RIVM - 15%	3,210,157,963
	¢ <u>12,319,060,010</u>

(49) Fair value of financial instruments

As of December 31, 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:

	2020	
	Carrying amount	Fair value
<i><u>Financial assets:</u></i>		
Cash and due from banks	¢ 1,383,902,440,319	1,383,902,440,319
Loan portfolio	4,452,105,299,779	4,235,005,218,527
	¢ <u>5,836,007,740,098</u>	<u>5,618,907,658,846</u>
<i><u>Financial liabilities:</u></i>		
Demand deposits from the public and financial entities	¢ 3,654,955,323,204	3,654,955,323,204
Term deposits from the public and financial entities	2,895,569,032,434	2,901,080,548,166
Obligations with entities	7,873,700,508	7,873,700,508
	¢ <u>6,558,377,541,335</u>	<u>6,563,909,571,878</u>

*Fair value estimates*

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 December 31, 2020.

(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.

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

	2020			
	Level 1	Level 2	Level 3	Total
Fair value through profit or loss	₡ 5,249,253,988	13,801,674,689	4,414,744,410	23,465,673,087
Fair value through other comprehensive income	717,354,386,966	5,648,062,549	-	723,002,449,515
Amortized cost	609,412,003,167	-	-	609,412,003,167
Derivative financial instruments	-	-	15,753,371,710	15,753,371,710
Term obligations with foreign financial entities	-	-	400,679,619,801	400,679,619,801

(Continued)

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).

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

	2020		
	Fair value through profit or loss	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢ 4,488,288,925	10,742,740,489	489,650,619,452
Purchases	66,287,021	-	-
Valuation	1,536,448,971	15,740,048,459	12,308,739,402
Amortizations	-	-	1,720,311,005
Exchange differences	(1,676,280,507)	(10,729,417,238)	(103,000,050,058)
Closing balance	¢ 4,414,744,410	15,753,371,710	400,679,619,801

(Continued)

# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

### (50) Segments

As of December 31, the Conglomerate has defined its business segments based on the administrative and reporting structure and on the structure of banking, stock brokerage, investment and pension fund management and insurance brokerage services it provides. Profit or loss, assets and liabilities of each segment are as follows:

	2020						Eliminations and reclassifications	Consolidated
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total		
<b>ASSETS</b>								
Cash and due from banks	1,379,990,856,795	3,378,916,198	230,241,599	1,062,560,477	75,850,162	1,384,738,425,231	(835,984,917)	1,383,902,440,314
Investments in financial instruments	1,316,219,293,560	45,238,852,666	10,061,278,014	9,860,086,885	7,398,917,158	1,388,778,428,283	(22,212,000)	1,388,756,216,283
Loan portfolio, net	4,296,577,338,170	-	-	-	-	4,296,577,338,170	-	4,296,577,338,170
Accounts and fees and commissions receivable, net	924,298,584	36,015,049	65,309,697	837,388,727	262,830,153	2,125,842,210	(422,992,012)	1,702,850,198
Fees and commissions	293,377,460	22,708,545	45,916,576	806,092,681	231,190,867	1,399,286,129	(20,892,957)	1,378,393,172
Accounts receivable for brokerage operations	-	5,728,705	-	-	-	5,728,705	-	5,728,705
Transactions with related parties	419,031,096	2,093,255	-	-	-	421,124,351	(402,099,055)	19,025,296
Deferred tax and income tax	143,613,342	-	17,962,034	79,765	26,954,120	188,609,261	-	188,609,261
Other	4,216,574,443	5,484,544	8,566,530	90,729,189	4,685,166	4,326,039,872	-	4,326,039,872
Accrued interest	2,991,594	-	-	-	-	2,991,594	-	2,991,594
Allowance for impairment	(4,151,289,351)	-	(7,135,443)	(59,512,908)	-	(4,217,937,702)	-	(4,217,937,702)
Foreclosed assets, net	32,365,899,015	-	-	-	-	32,365,899,015	-	32,365,899,015
Investments in other companies	117,705,861,796	30,000,000	-	-	-	117,735,861,796	(45,308,816,887)	72,427,044,909
Property and equipment, net	211,802,700,957	743,485,826	238,927,375	327,202,256	107,684,819	213,220,001,233	-	213,220,001,233
Other assets	83,067,044,002	149,391,989	497,570,914	131,458,828	260,770,552	84,106,236,285	-	84,106,236,285
<b>TOTAL ASSETS</b>	<b>7,438,653,292,879</b>	<b>49,576,661,728</b>	<b>11,093,327,599</b>	<b>12,218,697,173</b>	<b>8,106,052,844</b>	<b>7,519,648,032,223</b>	<b>(46,590,005,816)</b>	<b>7,473,058,026,407</b>
<b>LIABILITIES AND EQUITY</b>								
<b>LIABILITIES</b>								
Obligations with the public	5,626,184,517,289	7,905,622,423	-	-	-	5,634,090,139,712	-	5,634,090,139,712
Obligations with BCCR	8,126,311,079	-	-	-	-	8,126,311,079	19,505,205,808	27,631,516,887
Obligations with entities	902,082,561,970	20,012,872,715	4,598,361	5,609,859	-	902,600,437,096	-	901,742,240,179
Demand	66,111,393,172	-	-	-	-	66,111,393,172	(835,984,916)	65,275,408,256
Term	830,905,328,172	19,992,357,903	4,598,361	5,609,859	-	831,423,203,298	(22,212,000)	831,400,991,298
(Deferred expenses for own portfolio)	(49,567,474)	-	-	-	-	(49,567,474)	-	(49,567,474)
Finance charges payable	5,115,408,100	20,514,812	-	-	-	5,135,922,912	(20,514,812)	5,115,408,100
Accounts payable and provisions	97,977,816,389	3,127,047,635	1,284,673,870	2,502,107,466	931,494,174	105,823,139,534	(422,992,046)	105,400,147,488
Other liabilities	37,052,115,138	-	-	-	-	37,052,115,138	-	37,052,115,138
Subordinated obligations	60,950,013,196	-	-	-	-	60,950,013,196	-	60,950,013,196
<b>TOTAL LIABILITIES</b>	<b>6,732,373,335,061</b>	<b>31,045,542,773</b>	<b>1,289,272,231</b>	<b>2,507,717,325</b>	<b>931,494,174</b>	<b>6,768,147,361,564</b>	<b>(1,281,188,970)</b>	<b>6,766,866,172,601</b>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

2020								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations	Consolidated
EQUITY								
Share capital	¢ 172,237,030,102	6,600,000,000	3,000,000,000	6,139,564,084	369,700,000	188,346,294,186	(16,109,264,084)	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,255,360,925	-	1,255,360,925	(1,255,360,925)	-
Equity adjustments	87,897,038,178	221,758,230	172,359,694	(315,533,316)	-	87,975,622,786	13,312,916	87,988,935,702
Capital reserves	381,362,590,326	1,320,000,000	600,000,000	300,000,000	73,940,000	383,656,530,326	(2,293,940,000)	381,362,590,326
Prior year retained earnings	11,005,359,016	7,824,287,045	3,339,933,628	993,861,397	3,193,557,191	26,356,998,277	(15,504,750,561)	10,852,247,716
Income for the year	14,734,575,073	2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	24,866,499,036	(10,158,814,198)	14,707,684,838
FOFIDE	39,043,365,123	-	-	-	-	39,043,365,123	-	39,043,365,123
TOTAL EQUITY	¢ 706,279,957,818	18,531,118,955	9,804,055,368	9,710,979,848	7,174,558,670	751,500,670,659	-	706,191,853,807
TOTAL LIABILITIES AND EQUITY	¢ 7,438,653,292,879	49,576,661,728	11,093,327,599	12,218,697,173	8,106,052,844	7,519,648,032,223	-	7,473,058,026,407
Debit memoranda accounts	¢ 481,255,103,256	74,498,106	100,000	39,762,952	2,840,000	481,372,304,314	-	481,372,304,314
Trust assets	¢ 2,000,959,828,942	683,694,476	-	-	-	2,001,643,523,418	-	2,001,643,523,418
Trust liabilities	¢ 138,640,543,689	383,652	-	-	-	138,640,927,341	-	138,640,927,341
Trust equity	¢ 1,862,319,285,253	683,310,824	-	-	-	1,863,002,596,077	-	1,863,002,596,077
Other debit memoranda accounts	¢ 159,148,835,925	683,694,479	-	-	-	159,832,530,404	-	159,832,530,404

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2020							
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	905,857,245,029	8,166,609,503	1,115,391,923	2,127,364,141	228,561,807	917,495,172,403	(414,146,604,936)	503,348,567,467
Finance costs	654,141,691,466	4,436,696,682	169,288,994	268,658,197	30,483,760	659,046,819,099	(414,146,604,936)	244,900,214,163
Allowance expense	71,893,085,690	95,524,768	39,301,199	2,029,791	1,449,592	72,031,391,040	-	72,031,391,040
Income from recovery of assets	9,537,340,014	55,458,750	2,938,815	-	405,393	9,596,142,972	-	9,596,142,972
FINANCE INCOME	189,359,807,887	3,689,846,803	909,740,545	1,856,676,153	197,033,848	196,013,105,236	-	196,013,105,236
Other operating income	169,066,810,318	4,618,599,471	6,766,265,231	8,951,667,865	7,594,066,123	196,997,409,008	(12,129,474,357)	184,867,934,651
Other operating expenses	113,856,686,441	780,704,686	591,071,856	1,419,131,558	125,326,439	116,772,920,980	(1,831,350,008)	114,941,570,972
GROSS OPERATING INCOME	244,569,931,764	7,527,741,588	7,084,933,920	9,389,212,460	7,665,773,532	276,237,593,264	-	265,939,468,911
Personnel expenses	124,364,957,364	3,007,726,577	2,282,415,748	4,233,500,448	2,131,876,919	136,020,477,056	-	136,020,477,056
Other administrative expenses	69,492,092,835	662,818,610	776,778,072	1,172,458,103	254,136,497	72,358,284,117	(139,310,149)	72,218,973,968
Total administrative expenses	193,857,050,199	3,670,545,187	3,059,193,820	5,405,958,551	2,386,013,416	208,378,761,173	-	208,239,451,021
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	50,712,881,565	3,857,196,401	4,025,740,100	3,983,253,909	5,279,760,116	67,858,832,091	-	57,700,017,891
Income tax	27,660,384,853	1,200,394,443	1,216,757,728	1,204,698,719	1,605,539,222	32,887,774,965	-	32,887,774,965
Decrease in income tax	2,151,154,343	23,987,614	3,551,877	14,330,657	21,477,429	2,214,501,920	-	2,214,501,920
Statutory allocations	10,469,075,982	115,715,892	120,772,203	1,455,159,089	158,336,844	12,319,060,010	-	12,319,060,010
INCOME FOR THE YEAR	14,734,575,073	2,565,073,680	2,691,762,046	1,337,726,758	3,537,361,479	24,866,499,036	-	14,707,684,831

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Contingencies

As of December 31, Banco Nacional de Costa Rica (the Bank), BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (the Pension Fund Manager), BN Valores Puesto de Bolsa, S.A. (the Brokerage Firm) and BN Sociedad Administradora de Fondos de Inversión, S.A. (the Investment Fund Manager) are defendants in ordinary, labor and criminal lawsuits, as follows:

	Number of cases	Phase	Total estimated amount
Banco Nacional de Costa Rica	375	First instance	¢ 127,287,512,693
	16	Second instance	20,241,965,937
	13	Appeal	5,574,188,119
	404		153,103,666,749
BN Vital	7	First instance	39,762,952
BN Valores	1	First instance	74,498,106
BN SAFI	1	First instance	100,000
BN Corredora	1	First instance	2,840,000
	413	(Note 27)	¢ 153,220,867,808

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

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

2020	Phase	2020
331	First instance	¢ 80,325,129,525
1	Second instance	375,839,600
332		¢ 80,700,969,125

Additionally, the Bank is a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is File No. 5-008666-1027-CA of the Administrative Court, at 10:45 hours of November 20, 2015, received on December 15, 2015. As of December 31, 2020, the Bank booked a provision in the amount of ¢820,669,567.33 for that lawsuit.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The following lawsuits are also worth noting:

- File No. 14-003379-1027-CA
  - ✓ Statement of facts: The plaintiffs seek the payment of damages by the Bank to all the plaintiffs as well as compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
  - ✓ Current status: The resolution of April 10, 2018 at 17:15 ordered the separation of the case into separate files for each of the Bank members. This resolution was unsuccessfully appealed by the plaintiff's representatives. Currently, a number of separate lawsuits were presented to the Bank, which is in the process of filing the corresponding responses and some preliminary hearings have been summoned, while other summons for public trial are pending or issue of a resolution, having been declared a question of law.
- File No. 08-000388-0419-AG
  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: The proceedings seek to declare the liability of CORBANA, as Trustee of a banana plantation Management Trust, in which the Bank was the Trust Beneficiary. In resolution No. 92-2015 of first instance, the Agrarian Court ruled in favor of the Bank. The Agrarian Court accepted the objection of statute of limitations, since the lawsuit was filed four years after negative prescription, as per Article 968 of the Code of Commerce.
  - ✓ Current status: Vote No. 055-F-18 of January 31, 2018, at 11:55, denied the negative statute of limitations exception, in its commercial and decennial common modality. The judge of first instance must issue a ruling on the appeal concerning new facts and claims of the case, as applicable. Since the parties were not in conformity with the resolution, all parties filed appeals for review before the First Chamber. As of the date of this report, this case remains the same.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No. 08-000232-0419-AG
  - ✓ Court: Agrarian Court of Corredores
  - ✓ Statement of facts: This process was filed by the Bank against Surcoop R.L. It seeks to nullify the auction, awarding, and registration of lots of the Agrarian Court of Corredores processed through file No. 97-010656-1701 AG.
  - ✓ Current status: The Bank appeared before the First Chamber in relation to the appeal for review filed by the plaintiff. A resolution by the First Chamber is pending.
- File No. 11-001042-0612-PE
  - ✓ Court: Office of Economic, Tax, and Customs Crimes
  - ✓ Statement of facts: Irregularities were reported with respect to the company Zion and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the apparent participation of some of the employees of Bank.
  - ✓ Current status: The public prosecutor's office filed an accusation, but it was not communicated to the Bank since it is not considered a victim. A motion for declaration of procedural defects was filed, so that the accusation can be brought to the Bank's attention. In a hearing scheduled for September 12, 2019, the declaration of procedural defects filed by BNCR will be heard. There is a civil lawsuit against the Bank, but it does not hold because the accused (bank employees) were summoned to a testimony. Until the legal status of those individuals is defined, they cannot be part of a civil lawsuit.
- File No.: 14-00826-1027-CA
  - ✓ Statement of facts: The plaintiffs seek the Bank to be declared liable for the payment of damages to all investors of the "Management Trust for the Real Estate Development and Private issue of Securities of Playa Coyote Project" (Fideicomiso de Administración de Desarrollo Inmobiliario y de Emisión Privada de Valores Proyecto Playa Coyote).
    - ✓ Current status: The judgment of first instance was appealed. It is currently at the First Chamber, pending resolution. The remedy was recently admitted and the plaintiffs were granted hearings.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- File No.: 15-002321-1027-CA
- ✓ Statement of facts: The Bank filed a suit against the Costa Rican Social Security Administration (CCSS) for additional payrolls presented for the collection of commissions from the employees of the Bank. Article 173 of the Internal Regulations of the National Banking System (IRNBS) sets forth that those commissions are exempt from employer and employee contributions.

Current status: The suit filed by the Bank was dismissed in every respect. Accordingly, the corresponding extraordinary appeal was filed in time and form. As of the date of this report, a resolution is pending from the First Chamber.

(52) Emergency caused by COVID-19

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

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

As a result, as of December 31, 2020, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ₡1,838,897,871,649, representing 42.19% of the total loan portfolio.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2020
Agriculture and forestry	¢ 55,617,553,745
Trade	236,646,445,127
Construction	40,275,335,431
Consumer or personal loans	181,993,271,368
Electricity, water, sanitation and other related sectors	317,755,814
Mining	345,022,348
Livestock, hunting and fishing	31,765,420,846
Industry	77,047,719,294
Services	418,549,449,578
Financial service	2,632,942,189
Transportation, communication and storage	41,968,088,183
Tourist	172,964,482,499
Housing	578,774,385,227
Sub-total	1,838,897,871,649
Accounts and accrued interest receivable	60,587,005,579
Total loans restructured due to COVID-19	1,899,484,877,228
Allowance for doubtful accounts	(38,070,471,241)
Total loan portfolio, net	¢ 1,861,414,405,987

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

	2020
Fiduciary and without guarantee	¢ 476,056,659,512
Mortgage	1,270,293,892,300
Chattel	92,547,319,837
	1,838,897,871,649
Accounts and accrued interest receivable	60,587,005,579
Total loans restructured due to COVID-19	1,899,484,877,228
Allowance for loan losses	(38,070,471,241)
Total loan portfolio, net	¢ 1,861,414,405,987

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2020
Current	¢ 1,772,706,247,740
1 to 30 days	21,882,743,098
31 to 60 days	18,211,697,502
61 to 90 days	7,216,586,852
91 to 120 days	6,561,102,392
121 to 150 days	8,320,591,011
In legal collection	3,998,903,054
	1,838,897,871,649
Accounts and accrued interest receivable	60,587,005,579
Total loans restructured due to COVID-19	1,899,484,877,228
Allowance for loan losses	(38,070,471,241)
Total loan portfolio, net	¢ 1,861,414,405,987

As of December 31, 2020, only 9.8% of a total of ¢1,838,897,871,649 maintains temporary credit conditions, which represents 4% de entire loan portfolio.

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.
- Changes in schedules for all service offices:
  - i. Attention to the public was reduced by one hour, seeking to reduce the exposure for both employees and customers.
  - ii. The first hour and a half of the schedule was set aside for exclusive attention to the elderly, every day, and it is extended to two hours and a half during pension payment days, when offices will open one hour before the regular schedule.
  - iii. The elderly and disabled customers are given preferential attention during the entire workday.
  - iv. A decision was made to not provide the services offered within the service network during the weekends, except for ATMs.
- Hygiene measures were strengthened by installing portable handwash basins in high-transit offices (29 offices) and encouraging personnel and customers to wash their hands before and after their transactions, or at least once every hour.

(Continued)



## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- As of the date of this report, the Bank has 2,472 employees working from home, representing 44% of total employees. All positions that permit work from home have been implemented.
- The maximum number of customers was established according to the physical capacity of each office and protection screens are used to avoid contact.
- Some of the autobanks were not in operation. Currently 17 are operating.
- Of the bank's employees, 462 were identified as having health conditions that put them at a higher risk according to the Ministry of Health. That population was separated from processes involving attention to the public and most of them are working from home.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

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

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

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

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## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- Corporate banking (large enterprises) and medium enterprises. Only customers from trade and tourist activities, with variable payments, may dispense with loan installments for a term between three and nine months, with installments being transferred to the final loan installment to provide those entities with a financial relief. The adjustment is not automatic or the same in all cases but analyzed individually. The Bank has assigned executive to contact customers qualifying for this benefit. For customers from other previously identified vulnerable economic sectors, the Bank has also assigned a team of executives to contact customers and look for alternatives to make their operations sustainable.

In all cases, to be eligible for the benefit, customers should not have two or more readjustments made in the last 24 months. Additionally, customers are required to not exceed arrears of more than 60 days.

This program entered into effect on March 26, 2020. The Bank has identified approximately 107,000 loan operations that could benefit from these support measures. The Bank has made the necessary adjustments to its systems to ensure correct control and accounting record derived from previous assistance programs.

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

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

#### c) Liquidity measures

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

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# BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

## Notes to the Consolidated Financial Statements

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

### d) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bonds portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of December 31, 2020, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

### (53) Adjustment due to implementation of regulations

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

As of December 31, adjustments to prior period retained earnings are as follows:

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

(Continued)

## BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

### Notes to the Consolidated Financial Statements

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

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

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

b) IAS 38: Intangible assets

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) IFRS 9: Financial Instruments

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(55) Disclosure of economic impact of departure from IFRS

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

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