BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of December 31, 2022
(With corresponding figures for 2021)

(With the Independent Auditors' Report thereon)

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

KPMG S.A.
Edificio KPMG
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Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica and Subsidiaries

Opinion

We have audited the consolidated financial statements of Banco Nacional de Costa Rica and Subsidiaries (the Conglomerate), which comprise the consolidated statement of financial position as of December 31, 2022, 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, 2022, 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 Conglomerate 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 2-a 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.	Our procedures in this area included: • involving our specialists to determine the value of financial instruments, based on the methodologies used for the valuation of financial instruments and the inputs provided by the Bank; • for all 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; • submitting confirmations to the financial entities with which the Bank holds derivative financial instruments.

Key Audit Matter	How the matter was addressed in our audit
2. Compliance with the regulation to determine the allowance for loan losses	
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). 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. 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. 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.	Our procedures in this area included: • assessing the design and operating efficiency of IT controls on the information systems used by the Bank's management to calculate arrears in the loan portfolio; performing detailed testing of the entire loan portfolio to confirm the days of arrears; • 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; • recalculating the minimum allowance for loan losses on direct loans and stand-by credits, based on the information furnished by the Bank's management; testing the integrity of data for this information; • performing detailed testing of a sample of borrowers, to confirm whether the Bank's 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; • comparing the level of historical payment behavior used by the Bank's management with the information provided by SUGEF's Credit Information Center. • recalculating and comparing the risk rating assigned by the Bank's management (recorded in the credit subledger) to KPMG's recalculation.

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 Conglomerate'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 Conglomerate or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Conglomerate's consolidated 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 Conglomerate'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 Conglomerate'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 Conglomerate 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 Conglomerate 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 31, 2023

KPMG

Nombre del CPA: MYNOR PACHECO SOLANO
Carné: 4596
Cédula: 108980067
Nombre del Cliente: BN CONS
Identificación del cliente: 4000001021
Dirigido a: BERNARDO ALFARO
Fecha: 16-03-2023 09:41:41 AM
Tipo de trabajo: Informe de Auditoria

Timbre de ¢1000 de la Ley 6663 adherido y cancelado en el original.

MYNOR PACHECO SOLANO
Contador Público Autorizado No. 4596
COSTA RICA

Código de Timbre: CPA-1000-3714

San José, Costa Rica
Mynor Pacheco Solano
Member No. 4596
Policy No. 0116 FIG 7
Expires 9/30/2023

¢1,000 tax stamp paid pursuant to Law No. 6663
and digitally affixed to the original document

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022
(With corresponding figures for 2021)
(In colones)

	Note	2022	2021
ASSETS			
Cash and due from banks	**9**	**1,470,874,684,814**	**1,355,841,181,326**
Cash		120,946,392,526	153,022,359,822
BCCR		876,032,752,531	748,869,850,603
Local financial entities		704,838,436	1,270,630,547
Foreign financial entities		339,557,541,465	323,019,677,543
Notes payable on demand		7,446,883,299	7,097,413,624
Restricted cash and due from banks		126,186,276,557	122,561,249,187
Investments in financial instruments	**10**	**1,467,745,173,616**	**1,789,748,289,965**
At fair value through profit or loss		24,433,857,502	40,139,798,613
At fair value through other comprehensive income		585,704,089,628	807,216,667,803
At amortized cost		840,653,764,943	917,505,890,841
Derivative financial instruments	**10**	16,413,585	7,723,704,438
Accrued interest receivable		19,867,240,764	19,963,735,244
(Allowance for impairment of investments in financial instruments)		(2,930,192,806)	(2,801,506,974)
Loan portfolio	**12**	**4,632,292,699,015**	**4,477,434,448,101**
Current		4,422,146,926,877	4,282,160,940,971
Past due		229,419,023,669	209,954,545,122
In legal collection		54,090,100,225	42,215,104,572
Direct incremental costs related to loans		5,755,898,412	3,675,079,715
(Deferred income on loan portfolio)		(41,927,136,381)	(35,117,407,652)
Accrued interest receivable		102,173,613,358	110,377,468,668
(Allowance for loan losses)		(139,365,727,145)	(135,831,283,295)
Accounts and fees and commissions receivable	**13**	**2,504,841,460**	**2,243,415,123**
Fees and commissions receivable		1,783,560,799	1,956,296,857
Accounts receivable for transactions with related parties		31,661,570	16,309,408
Deferred tax and income tax receivable		434,433,756	160,429,601
Other receivables		4,584,142,477	4,181,997,820
Accrued interest receivable		725,933	1,923,294
(Allowance for impairment of accounts and fees and commissions receivable)		(4,329,683,075)	(4,073,541,857)
Assets held for sale	**14**	**37,495,457,395**	**35,788,800,197**
Assets and securities acquired in lieu of payment		98,126,485,936	94,628,393,958
Other assets held for sale		55,884,628	55,884,629
(Allowance for impairment of assets held for sale and per legal requirements)		(60,686,913,169)	(58,895,478,390)
Investments in other companies	**15**	**73,366,699,575**	**76,812,766,066**
Property, furniture, equipment and right-of-use assets, net	**16**	**206,368,265,833**	**209,184,043,954**
Other assets	**17**	**54,715,527,283**	**58,582,159,906**
Deferred charges		14,330,485,937	28,728,197,092
Intangible assets		8,977,676,831	9,171,952,640
Other assets		31,407,364,515	20,682,010,174
TOTAL ASSETS		**7,945,363,348,991**	**8,005,635,104,638**

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

Continued…

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022
(With corresponding figures for 2021)
(In colones)

LIABILITIES AND EQUITY	Note	2022	2021
LIABILITIES			
Obligations with the public	**18**	**6,142,055,961,261**	**6,097,748,047,773**
Demand obligations		4,314,717,356,387	4,369,258,152,185
Term obligations		1,790,666,793,187	1,701,120,048,148
Finance charges payable		36,671,811,687	27,369,847,440
Obligations with BCCR	**19**	**166,961,956,341**	**168,243,245,539**
Term obligations		164,696,408,078	167,292,072,120
Finance charges payable		2,265,548,263	951,173,419
Obligations with entities	**20**	**664,921,757,098**	**808,501,740,570**
Demand obligations		45,264,635,945	113,563,426,122
Term obligations		616,971,270,043	691,810,646,497
Other obligations with entities		(103,269,735)	(51,811,794)
Finance charges payable		2,789,120,845	3,179,479,745
Accounts payable and provisions		**132,044,882,781**	**114,270,342,215**
Provisions	**22**	10,823,942,633	21,510,154,585
Accounts payable for brokerage services		778,552,285	975,639,293
Deferred tax	**21-b**	7,096,010,583	14,788,979,806
Other sundry accounts payable	**23**	113,346,377,280	76,995,568,531
Other liabilities	**24**	**30,496,879,207**	**26,972,290,867**
Deferred income		100,946,981	88,200,061
Other liabilities		30,395,932,226	26,884,090,806
Subordinated obligations	**25**	**68,908,170,318**	**58,367,371,894**
Subordinated obligations		66,820,890,000	57,427,250,000
Finance charges payable		2,087,280,318	940,121,894
TOTAL LIABILITIES		**7,205,389,607,006**	**7,274,103,038,858**
EQUITY			
Share capital		**172,237,030,102**	**172,237,030,102**
Paid-in capital	**26-a**	172,237,030,102	172,237,030,102
Equity adjustments - Other comprehensive income		**65,091,090,087**	**93,316,808,915**
Reserves	**26-b**	**387,165,279,581**	**364,737,238,098**
Prior-period retained earnings		**33,734,195,713**	**40,383,150,176**
Income for the year		**37,309,550,832**	**19,170,334,467**
Capital contributions or special funds	**26-c**	**44,436,595,670**	**41,687,504,022**
TOTAL EQUITY		**739,973,741,985**	**731,532,065,780**
TOTAL LIABILITIES AND EQUITY		**7,945,363,348,991**	**8,005,635,104,638**
DEBIT MEMORANDA ACCOUNTS	**27**	**443,749,725,955**	**499,244,466,090**
TRUST ASSETS	**28**	**3,310,308,330,129**	**2,996,260,410,061**
TRUST LIABILITIES		**83,308,242,976**	**125,312,125,616**
TRUST EQUITY		**3,227,000,087,153**	**2,870,948,284,445**
TRUST MEMORANDA ACCOUNTS		**223,028,308,333**	**213,915,088,460**
OTHER DEBIT MEMORANDA ACCOUNTS	**29**	**31,473,639,610,694**	**31,077,261,703,346**
Own debit memoranda accounts		10,139,739,803,226	9,181,234,407,438
Third-party debit memoranda accounts		4,722,010,921,517	4,897,730,289,330
Own debit memoranda accounts for custodial activities		527,864,839,532	672,053,399,643
Third-party debit memoranda accounts for custodial activities		16,084,024,046,419	16,326,243,606,935

BERNARDO JOSE ALFARO ARAYA (FIRMA)
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Bernardo Alfaro Araya
General Manager

ALEJANDRA MORALES CENTENO (FIRMA)
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Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
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Date: 2023.04.29 18:37:44 -06'00'

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Situación Financiera
2023-04-28 15:03:19 -0600

CONTADOR PRIVADO INCORPORADO
MORALES CENTENO ALEJANDRA
CPI No. 21119
COSTA RICA

COSTA RICA
Colegio de Contadores Privados de Costa Rica
Aniversario 70
₡300 COLONES

TIMBRE 300.0 COLONES

VERIFICACIÓN: KClxypNC
https://timbres.contador.co.cr

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(With corresponding figures for 2021)
(In colones)

	Note	2022	2021
Finance income			
Cash and due from banks	**33**	6,121,079,091	1,100,313,998
Investments in financial instruments	**33**	55,650,289,585	59,760,343,227
Loan portfolio	**34**	399,102,186,590	344,698,662,061
Gain on foreign exchange differences and DU, net	**6-d**	-	333,426,867
Gain on financial instruments at fair value through profit or loss		275,865,856	242,616,378
Gain on financial instruments at fair value through other comprehensive income		2,674,164,874	14,067,086,702
Other finance income	**35**	13,594,755,906	11,335,164,637
Total finance income		**477,418,341,902**	**431,537,613,870**
Finance costs			
Obligations with the public	**36**	130,663,995,298	118,754,214,005
Obligations with BCCR		1,469,023,262	966,894,701
Obligations with financial and non-financial entities	**37**	32,915,704,016	33,817,369,366
Subordinated, convertible and preferred obligations		5,786,919,313	3,166,352,899
Loss on foreign exchange differences and DU, net	**6-d**	613,117,960	-
Loss on financial instruments at fair value through profit or loss		461,424,631	1,593,111
Loss on financial instruments at fair value through other comprehensive income		4,131,315,385	184,488,242
Loss on derivative financial instruments, net	**11**	6,994,150,169	2,008,593,199
Other finance costs	**38**	8,359,108,016	1,777,381,315
Total finance costs		**191,394,758,050**	**160,676,886,838**
Allowance for impairment of assets	**39**	50,529,486,900	84,766,606,492
Recovery of assets and decreases in allowances and provisions	**40**	23,650,749,749	17,233,526,919
FINANCE INCOME		**259,144,846,701**	**203,327,647,459**
Other operating income			
Service fees and commissions	**41**	169,574,431,232	152,442,579,403
Assets held for sale		7,346,302,970	11,153,298,467
Gain on investments in other companies	**8**	1,952,980,119	1,172,039,559
Foreign currency exchange and arbitrage		28,560,481,778	22,822,631,375
Other operating income	**42**	9,697,340,625	6,556,607,878
Total other operating income		**217,131,536,724**	**194,147,156,682**

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

Continued…

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2022
(With corresponding figures for 2021)
(In colones)

	Note	2022	2021
Other operating expenses			
Service fees and commissions		42,279,287,668	35,633,726,054
Assets held for sale	**43**	20,907,270,097	14,287,084,654
Provisions	**44**	5,592,968,973	6,598,461,976
Bonuses on fees and commissions of voluntary pension funds		214,522,178	521,039,916
Foreign currency exchange and arbitrage		43,166,247	10,973,307
Other expenses with related parties		58,886,517	47,464,807
Other operating expenses	**45**	67,428,623,672	55,004,992,226
Total other operating expenses		**136,524,725,352**	**112,103,742,940**
GROSS OPERATING INCOME		**339,751,658,073**	**285,371,061,201**
Administrative expenses			
Personnel expenses	**46**	152,574,273,661	142,806,912,528
Other administrative expenses	**47**	83,050,743,971	74,417,656,611
Total administrative expenses		**235,625,017,632**	**217,224,569,139**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**104,126,640,441**	**68,146,492,062**
Current tax	**21-a**	29,148,260,936	19,578,361,824
Prior year income tax	**21-a**	14,189,237,931	14,189,237,931
Deferred tax	**21-a**	1,748,211,294	1,607,370,994
Deferred tax income	**21-a**	1,733,569,705	1,361,385,393
Statutory allocations	**48**	23,464,949,153	14,962,572,239
INCOME FOR THE YEAR		**37,309,550,832**	**19,170,334,467**
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will not be reclassified to profit or loss			
Surplus from revaluation of property		90,819,542	199,556,112
Other adjustments		(8,376,895,670)	5,384,611,461
Items that are or may be reclassified to profit or loss			
Adjustment for valuation of investments at fair value through other comprehensive income		(20,572,807,920)	588,579,253
Adjustment for valuation of restricted financial instruments		-	(2,869,322)
Surplus from revaluation of other assets		(8,990,579)	-
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(28,867,874,627)**	**6,169,877,504**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**8,441,676,205**	**25,340,211,971**

BERNARDO JOSE ALFARO ARAYA (FIRMA)
Firmado digitalmente por BERNARDO JOSE ALFARO ARAYA (FIRMA)
Fecha: 2023.05.02 13:33:23 -06'00'

Bernardo Alfaro Araya
General Manager

ALEJANDRA MORALES CENTENO (FIRMA)
Firmado digitalmente por ALEJANDRA MORALES CENTENO (FIRMA)
Fecha: 2023.04.28 18:36:31 -06'00'

Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Digitally signed by RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Date: 2023.04.29 18:38:25 -06'00'

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Resultados Integral
2023-04-28 15:03:25 -0600

CONTADOR PRIVADO INCORPORADO
MORALES CENTENO ALEJANDRA
CPI No. 21119
COSTA RICA

COSTA RICA
COLEGIO DE CONTADORES PRIVADOS DE COSTA RICA
Aniversario 70
₡300 COLONES

TIMBRE 300.0 COLONES

VERIFICACIÓN: KClxypNC
https://timbres.contador.co.cr

BANCO NACIONAL DE COSTA RICA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE YEAR ENDED DECEMBER 31, 2022
(In colones)

	Note	Share capital	Equity adjustments - Other comprehensive income	Reserves	Capital contributions in special funds	Prior-year retained earnings	Total
Balance at December 31, 2020	**26**	**172,237,030,102**	**87,988,935,702**	**381,362,590,326**	**39,043,365,123**	**25,559,932,556**	**706,191,853,809**
Transactions with owners booked directly in equity:							
Other statutory reserves		-	-	(563,704,376)	-	563,704,376	-
Capital contributions in special funds		-	-	-	2,644,138,899	(2,644,138,899)	-
Total transactions with owners booked directly in equity		**-**	**-**	**(16,625,352,228)**	**2,644,138,899**	**13,981,213,329**	**-**
Comprehensive income for the year:							
Income for the year		-	-	-	-	19,170,334,467	19,170,334,467
Surplus from revaluation of property		-	199,556,112	-	-	-	199,556,112
Adjustment for valuation of investments at fair value through other comprehensive income	**10-c**	-	435,467,921	-	-	153,111,332	588,579,253
Adjustment for valuation of restricted financial instruments		-	(2,869,322)	-	-	-	(2,869,322)
Other adjustments		-	5,360,905,545	-	-	23,705,916	5,384,611,461
Realization of surplus from revaluation of property		-	(665,187,043)	-	-	665,187,043	-
Total comprehensive income for the year		**-**	**5,327,873,213**	**-**	**-**	**20,012,338,758**	**25,340,211,971**
Balance at December 31, 2021	**26**	**172,237,030,102**	**93,316,808,915**	**364,737,238,098**	**41,687,504,022**	**59,553,484,643**	**731,532,065,780**
Transactions with owners booked directly in equity:							
Legal reserves		-	-	23,065,143,876	-	(23,065,143,876)	-
Other statutory reserves		-	-	(637,102,393)	-	637,102,393	-
Capital contributions in special funds		-	-	-	2,749,091,648	(2,749,091,648)	-
Total transactions with owners booked directly in equity		**-**	**-**	**22,428,041,483**	**2,749,091,648**	**(25,177,133,131)**	**-**
Comprehensive income for the year:							
Income for the year		-	-	-	-	37,309,550,832	37,309,550,832
Surplus from revaluation of property		-	90,819,542	-	-	-	90,819,542
Adjustment for valuation of investments at fair value through other comprehensive income	**10-c**	-	(20,572,807,920)	-	-	-	(20,572,807,920)
Surplus from revaluation of other assets		-	(8,990,579)	-	-	-	(8,990,579)
Other adjustments		-	(8,376,895,670)	-	-	-	(8,376,895,670)
Realization of surplus from revaluation of property		-	642,155,799	-	-	(642,155,799)	-
Total comprehensive income for the year		**-**	**(28,225,718,828)**	**-**	**-**	**36,667,395,033**	**8,441,676,205**
Balance at December 31, 2022	**26**	**172,237,030,102**	**65,091,090,087**	**387,165,279,581**	**44,436,595,670**	**71,043,746,545**	**739,973,741,985**

BERNARDO JOSE ALFARO ARAYA (FIRMA)
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Bernardo Alfaro Araya
General Manager

ALEJANDRA MORALES CENTENO (FIRMA)
Firmado digitalmente por ALEJANDRA MORALES CENTENO (FIRMA)
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Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
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Date: 2023.04.29 18:39:05 -06'00'

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Cambios en el Patrimonio
2023-04-28 15:03:39 -0600

TIMBRE 300.0 COLONES

VERIFICACIÓN: KClxypNC
https://timbres.contador.co.cr

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
(With corresponding figures for 2021)
(In colones)

	Note	2022	2021
Cash flows from operating activities			
Income for the year		37,309,550,832	19,170,334,467
Items not requiring cash			
Depreciation and amortization		23,284,077,940	22,103,938,013
(Gain) loss on foreign exchange differences and DU, net		(50,230,718,380)	26,528,981,000
Loss on sale of non-financial assets		8,286,644,496	8,470,387,244
Finance income	**33-34**	(454,752,476,175)	(404,459,005,288)
Finance costs		101,674,932,197	113,462,587,951
Allowance for investments, net		(753,250,490)	2,843,896,581
Allowance for loan losses	**12-c**	46,950,535,780	78,587,703,720
Allowance for other accounts receivable, net		1,262,859,712	353,517,764
Loss (gain) on allowance for assets held for sale, net		1,791,434,781	(7,639,034,697)
Severance provision, net		(58,533,291)	39,927,713
Other provisions, net of payment		11,461,009,206	7,662,498,930
Share of net profit of subsidiaries and foreign associate		(1,952,980,131)	(1,172,039,593)
Statutory allocations, net	**48**	23,464,949,153	14,962,572,239
Income tax expense	**21-a**	43,337,498,867	33,767,599,755
Deferred tax, net	**21-a**	14,641,589	245,985,601
		(208,909,823,914)	**(85,070,148,600)**
Cash flows from operating activities			
Loan portfolio		(316,163,140,984)	(242,488,531,813)
Accounts and fees and commissions receivable		(4,981,822,239)	(836,573,109)
Assets held for sale		15,688,807,330	21,103,927,046
Other assets		17,745,348,905	45,899,484,242
Obligations with the public		227,350,847,152	358,964,242,320
Obligations with BCCR and other entities		(137,392,815,202)	(78,732,947,923)
Obligations for accounts payable, fees and commissions payable and provisions		(16,157,868,052)	(15,384,752,940)
Other liabilities		4,786,029,451	(1,627,658,119)
		(209,124,613,639)	**86,897,189,704**
Income tax paid		(33,871,964,198)	(28,931,048,046)
Interest received on loan portfolio and investments		463,052,825,965	416,508,522,317
Interest paid on term obligations with the public and financial entities		(91,448,952,006)	(123,715,105,627)
Statutory allocations paid		(14,965,512,391)	(12,320,255,489)
Net cash (used in) from operating activities		**(95,268,040,183)**	**253,369,154,259**
Cash flows from investing activities			
Increase in financial instruments		(1,337,897,811,012)	(1,181,459,732,016)
Decrease in financial instruments		1,442,655,645,777	964,767,222,208
Acquisition of property and equipment		(27,983,686,036)	(27,817,347,537)
Sale of property and equipment		(182,032,714)	784,976,075
Acquisition of intangible assets	**17-2**	(5,570,038,173)	(8,566,872,571)
Net cash from (used in) investing activities		**71,022,077,842**	**(252,291,753,841)**
Cash flows from financing activities			
Settlement of financial obligations		(9,268,170,330)	(71,369,074,463)
New financial obligations		3,014,300,000	200,485,000,006
Payment of lease liabilities	**16-c**	(2,138,603,083)	(2,005,812,157)
Net cash (used in) from financing activities		**(8,392,473,413)**	**127,110,113,386**
Net (decrease) increase in cash and cash equivalents		**(32,638,435,754)**	**128,187,513,804**
Cash and cash equivalents at beginning of year		**1,611,376,144,164**	**1,483,188,630,360**
Cash and cash equivalents at end of year	**9**	**1,578,737,708,410**	**1,611,376,144,164**

BERNARDO JOSE ALFARO ARAYA (FIRMA)
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Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Digitally signed by RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Date: 2023.04.29 18:39:32 -06'00'

Ricardo Araya Jiménez
General Auditor

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

(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). Its registered office is located in San José, Costa Rica.

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

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

Currently, due to innovations in information technology and telecommunications and especially because of the competition in the national and international financial sectors, the Bank has become a universal bank that offers services in all sectors of the Costa Rican market. Those services include personal, business, corporate and institutional banking, stock market, pension fund management, investment funds, insurance brokerage, international banking services and electronic banking services. It seeks to become the most digitalized, leading financial conglomerate in Costa Rica by offering the best customer experience, obtaining sufficient profitability levels to grow and support the country's development, and ensuring excellent organizational health.

As of December 31, 2022, the Bank has 153 offices, 468 ATMs and along with its subsidiaries a total of 5,700 employees (2021: 156 offices, 446 ATMs and along with its subsidiaries a total of 5,539 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,232 employees (2021: 5,078); BN Valores Puesto de Bolsa, S.A. - 73 employees (2021: 71); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 199 employees (2021: 190); BN Sociedad Administradora de Fondos de Inversión, S.A. - 90 employees (2021: 89); and BN Sociedad Corredora de Seguros, S.A. - 106 employees (2021: 101). The Bank's website is www.bncr.fi.cr.

(Continúa)

The following subsidiaries are wholly owned by the subsidiary Banco Nacional de Costa Rica:

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

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

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

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

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

Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), 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, BICSA Financial Center building, Floor 50, Aquilino de la Guardia street and Balboa Avenue. Banco de Costa Rica holds the remaining 51% ownership interest.

(Continued)

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

		2022				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢	53,575,574,621	12,676,790,042	14,022,587,205	8,362,290,656	588,923,922,927
Liabilities		38,408,333,772	1,104,264,890	2,217,016,062	1,398,734,114	515,608,719,020
Equity		15,167,240,849	11,572,525,152	11,805,571,143	6,963,556,542	73,315,203,907
Income for the year		1,009,378,643	2,691,837,646	1,426,919,471	4,122,954,777	1,948,010,226
Memoranda accounts		1,058,181,093,893	608,484,321,310	2,239,475,709,783	-	-

		2021				
		BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢	39,254,438,467	12,914,187,525	16,214,635,072	6,863,970,667	569,124,143,476
Liabilities		22,096,638,301	1,389,352,389	3,226,920,461	847,368,902	492,363,082,655
Equity		17,157,800,166	11,524,835,136	12,987,714,611	6,016,601,765	76,761,060,821
Income for the year		2,747,706,893	3,279,222,899	1,833,170,370	3,614,043,094	1,167,991,445
Memoranda accounts		981,903,518,963	772,762,829,391	2,299,915,233,156	-	-

(2) Basis of accounting

(a) Basis of accounting

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

With the entrance into effect of CONASSIF Agreement 6-18 *Regulation on Financial Information* (RFI), formerly SUGEF Agreement 30-18, the regulatory basis of accounting is updated in order to make progress in the adoption of International Financial Reporting Standards (IFRS). It also includes a single body of regulations, provisions regarding the remission, presentation and publication of financial statements, providing more uniformity in the actions of the superintendencies, as well as preventing duplications.

(b) Basis of measurement

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

Loans, accounts receivable and deposits are initially recognized on the date on which they are originated. All other financial assets (including assets at 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 Conglomerate controls an entity or a separate vehicle.

a- *Judgments*

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

- Note 5 (c) (ii) – Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the asset are solely payment of principal and interest (SPPI) on the principal amount outstanding.

(Continued)

- Note 5 (j) (ii) – Lease term: Whether the Conglomerate is reasonably certain that it will exercise extension options.
- Note 5 (c) (iii) – Establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information in the measurement of ECL and selection and approval of models used to measure ECL.

b- *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment for the years ended December 31, 2022 and 2021, is related to the impairment of financial instruments.

(i) *Fair value measurement*

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

(5) Significant accounting policies

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

(a) Basis of consolidation

i. *Subsidiaries*

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

ii. *Non-controlling interests*

Non-controlling interests are measured initially at their proportionate share of the acquiree’s identifiable net assets at the date of acquisition. As of December 31, 2022 and 2021, the Bank has 49% ownership interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

(Continued)

Changes in the Bank's interest 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.

v. Transactions eliminated on consolidation

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

(b) Foreign currency

i. Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into colones at the exchange rate at the date of the consolidated statement of financial position, except for transactions that have a contractually agreed exchange rate. Transactions in foreign currencies during the 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, 2022, assets and liabilities in US dollars are valued at the exchange rate of ¢601.99 to US$1.00 (2021: ¢645.25 to US$1.00), which is the reference selling rate established by BCCR.

As of December 31, 2022, assets and liabilities denominated in euro are valued at the exchange rate of ¢642.38 to €1.00 (2021: ¢732.17 to €1.00), which is obtained by multiplying the international Reuters exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of December 31, 2022, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢1,028.84 to DU1.00 (2021: ¢948.36 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Foreign operations

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

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

(Continued)

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

(c) Financial instruments*Recognition and 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.

(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.

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

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

Business model assessment

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

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

(Continued)

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.

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

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

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

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

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

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

(Continued)

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

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.

(iii) *Impairment of financial assets*

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

- Investments in financial instruments (amortized cost and OCI)
- Accrued interest receivable

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

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

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

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

Measurement of ECL

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

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

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

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 it would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

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

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

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

(d) Impairment of non-financial assets

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

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

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

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

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

(iv) Derecognition

Financial assets

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

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.

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

(f) Embedded derivatives

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

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

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

The Conglomerate currently has the following derivative financial instruments:

✓ *Derivatives held for risk management*

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

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

✓ *Derivatives other than hedges*

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

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

(Continued)

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

(g) Cash and cash equivalents

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

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

(h) Property, furniture, equipment and leasehold improvements

(i) Recognition and measurement

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

(ii) Subsequent costs

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

(iii) Depreciation and amortization

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

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

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

(i) Intangible assets

(i) Recognition and measurement

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

(ii) Amortization

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

(iii) Subsequent costs

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

(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.

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

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

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

(Continued)

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

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

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

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

(k) Loan portfolio

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

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

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

(l) Allowance for loan losses

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

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

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

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

As of December 31, 2022 and 2021, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

The provisions of Article 35 of SUGEF Directive 9-20 *Regulations to Authorize and Execute Operations with Foreign Exchange Derivatives* are to be applied in calculating the allowance for clearing price risk in respect of each customer or counterparty. For such purposes, the capital requirement adjusted for clearing price risk (as defined in Article 28 of SUGEF Directive 3-06 *Regulations on Capital Adequacy of Financial Entities*) must be multiplied by the respective allowance percentage corresponding to the borrower rating included in SUGEF Directive 1-05.

(n) Other receivables

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

(o) Assets held for sale

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

Assets held for sale are valued at the lower of cost and market value less costs to sell. 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 assets held for sale 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 assets held for sale, reports should be prepared by the appraisers who performed the appraisals and those reports must be updated at least annually.

If an asset booked under assets held for sale is used by the Conglomerate, it should be reclassified to the appropriate account.

With the entrance into effect of CONASSIF Directive 06-18, 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 assets held for sale must be applied. However, if it has not been sold within 24 months from the date of the award or receipt of the asset, the entity must request from the Superintendency an extension for an equal term for sale of the asset. The extension request may be denied by the Superintendency, providing adequate grounds for its decision, in which case it will require the creation of an allowance for 100% of the carrying amount. If the entity does not request an extension, it will also be required to create an allowance.

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

(Continued)

(p) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(q) Provisions

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

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

(r) Employee benefits

(i) Short-term employee benefits

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

Statutory Christmas bonus

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

Vacation

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

Incentives plan

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

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

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

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

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

The expense for the incentive is booked monthly in a liability account, which is liquidated the following year when the payment is made to employees and former employees who met the required conditions. For 2022, there is an arbitration process underway, which prevents the payment of the incentive for 2020 and 2021.

Annuities

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

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

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(ii) *Defined contribution plans*

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

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

(iii) *Defined benefit plans*

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

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

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 year as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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

(Continued)

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

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

(v) Employee Protection and Retirement Fund

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

- items established by the laws and regulations related to the Fund;
- contributions made by the Bank equivalent to 10% of total wages;
- contributions made by employees equivalent to 5.00% (2021: 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.

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

(s) Deferred income

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

(t) Legal reserve

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

Other statutory reserves

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

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

(u) Revaluation surplus

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

(v) Income tax

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

i. Current tax

Current tax is the expected tax payable on taxable income for the 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.

ii. Deferred tax

Deferred tax is recognized using the liability method in the consolidated statement of financial position in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

(Continued)

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

iii. Tax benefits - FOCREDE

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

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

(w) Segment reporting

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

(x) Financial statements of the different departments

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

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

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

(Continued)

(y) Recognition of income and expenses

i. Interest income and interest expense

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

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

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

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

a) The principal of the unpaid installments is prorated among the remaining installments of the payment plan, to be paid within the remaining term of the operation.

b) Interest corresponding to the restructured installments shall be payable at the end of the term of the operation, or it can be settled previously by the customer if they wish to do so.

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

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

(Continued)

As of December 31, 2022, allowances booked amount to ¢5,054. According to the plan for accrued interest receivable updated as of the 2022 close, the allowance to be booked amounts to ¢25,588 million. This plan must be carried out during the next 36 months, with bi-annual cutoffs. However, the balance must be updated at the beginning of each semester, considering the payments made, refinancing, default and other effects.

Semester	Minimum allowance percentage of the balance of accrued interest receivable over 180 days	Minimum allowance required
2022-06	9%	-
2022-12	18%	-
2023-06	30%	7,676
2023-12	42%	10,747
2024-06	56%	14,329
2024-12	70%	17,912
2025-06	85%	21,750
2025-12	100%	25,588

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.

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.

(aa) Development Financing Fund (FOFIDE)

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

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

(bb) Development Credit Fund (FOCREDE)

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

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

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

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

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

c. Pursuant to Article 35 of Law No. 8634, the Managing Banks may channel FOCREDE funds through placements to: associations, cooperatives, foundations, non-governmental organizations, producer organizations, or other formal entities, provided that they perform loan operations through development financing programs that meet the objectives established in Law No. 8634 and are duly authorized by the Governing Board.

(Continued)

d. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j) Article 12 of Law No. 8634 and the executive regulations thereto.

(cc) Trust operations

Assets managed by the Conglomerate as trustee are not considered part of the Conglomerate'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.

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

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

The Conglomerate manages the above risks as follows:

a) *Credit risk*

i. *Banco Nacional de Costa Rica*

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

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

The Conglomerate has established the following credit risk management procedures:

- The Conglomerate 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 Conglomerate has been able to optimize and standardize the process.

- The Conglomerate has performed and reviewed the administrative loan follow-up procedures for branches and regional offices.

- The Conglomerate is performing a comprehensive assessment of the credit granting process and the procedures performed in offices, shared service centers, commercial areas and corporate center.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

		Direct loan portfolio		Stand-by credits	
		2022	2021	2022	2021
Loan portfolio					
Principal	¢	4,705,656,050,771	4,534,330,590,665	342,809,334,409	343,468,286,255
Accounts and accrued interest receivable		102,173,613,358	110,377,468,668	-	-
Gross carrying amount		4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255
Incremental direct costs related to loans		5,755,898,412	3,675,079,715	-	-
Deferred income from loan portfolio		(41,927,136,381)	(35,117,407,652)	-	-
Allowance for loan losses (accounting records)		(139,365,727,145)	(134,969,114,159)	(1,186,743,415)	(862,169,136)
Net carrying amount	¢	4,632,292,699,015	4,478,296,617,237	341,622,590,994	342,606,117,119

		Direct loan portfolio		Stand-by credits	
		2022	2021	2022	2021
Loan portfolio					
Total balances:					
0	¢	37,840,006,906	38,542,571,361	-	-
A1		3,696,255,489,924	3,547,626,299,530	317,797,234,847	318,791,530,806
A2		58,680,008,946	64,839,046,769	1,328,281,001	1,350,094,056
B1		485,258,579,792	496,959,517,225	5,510,300,363	19,579,666,173
B2		17,191,173,454	19,393,633,811	90,427,343	94,766,477
C1		129,808,059,799	153,800,694,145	1,678,542,885	1,377,025,818
C2		18,398,551,481	17,461,789,224	79,055,604	123,641,928
D		176,816,506,996	124,274,772,442	836,617,671	763,454,913
E		187,581,286,831	181,809,734,826	15,488,874,695	1,388,106,084
		4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255
Structural allowance (subledger – database)		(99,619,383,824)	(93,400,972,388)	(321,036,394)	(293,237,854)
Net carrying amount	¢	4,708,210,280,305	4,551,307,086,945	342,488,298,015	343,175,048,401
Individually assessed loans with allowance:					
0	¢	36,830,632,028	38,871,253,691	-	-
A1		3,694,627,625,082	3,546,825,283,141	23,096,400,387	22,773,177,666
A2		58,680,008,946	64,839,046,769	27,692,856	26,833,348
B1		484,967,309,310	496,959,517,225	917,072,167	15,862,698,895
B2		17,191,173,454	19,393,633,811	-	-
C1		129,808,059,799	153,620,176,301	29,376,340	24,609,002
C2		18,398,551,481	16,461,789,224	1,555,624	4,073,391
D		176,816,506,996	124,274,772,442	-	59,645,358
E		187,581,286,831	181,579,058,900	14,351,743,266	46,371,877
		4,804,901,153,927	4,642,824,531,504	38,423,840,640	38,797,409,537
Structural allowance (subledger – database)		(99,619,383,824)	(93,400,972,388)	(321,036,394)	(293,237,854)
Net carrying amount	¢	4,705,281,770,103	4,549,423,559,116	38,102,804,246	38,504,171,683

		Direct loan portfolio		Stand-by credits	
		2022	2021	2022	2021
Current loan portfolio, without allowance:					
0		1,009,374,879	671,316,720	-	-
A1		1,627,864,842	801,016,389	294,700,834,460	296,018,353,493
A2		-	-	1,300,588,145	1,323,210,708
B1		291,270,481	-	4,593,228,196	3,716,967,279
B2		-	-	90,427,343	94,816,477
C1		-	180,517,845	1,649,166,545	1,352,416,738
C2		-	-	77,499,980	119,568,263
D		-	-	836,617,671	703,809,555
E		-	230,676,875	1,137,131,429	1,341,734,205
Carrying amount		2,928,510,202	1,883,527,829	304,385,493,769	304,670,876,718
Gross carrying amount	¢	4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255
Allowance for loan losses (database)		(99,619,383,824)	(93,400,972,388)	(321,036,394)	(293,237,854)
Excess of allowance over structural allowance		(39,746,343,321)	(41,568,141,771)	(865,707,021)	(568,931,282)
Incremental direct costs related to loans		5,755,898,412	3,675,079,715	-	-
Deferred income from loan portfolio		(41,927,136,381)	(35,117,407,652)	-	-
Net carrying amount	¢	4,632,292,699,015	4,478,296,617,237	341,622,590,994	342,606,117,119
Restructured loans	¢	39,016,262,887	25,893,341,916	-	-

Set out below is an analysis of the Bank’s loan portfolio balances as of December 31, gross and net of the allowance for loan losses, by risk rating according to SUGEF Directive 1-05 and SUGEF Directive 15-16 *Regulations on credit risk management and evaluation for the Development Banking System*:

		2022	
		Loans to customers	
		Gross	Net
0	¢	37,840,006,906	36,957,292,063
A1		3,696,255,489,924	3,675,409,583,012
A2		58,680,008,946	58,369,715,895
B1		485,258,579,792	480,423,762,908
B2		17,191,173,454	16,943,853,305
C1		129,808,059,799	125,131,995,848
C2		18,398,551,481	16,961,634,795
D		176,816,506,996	158,703,891,400
E		187,581,286,831	139,308,551,079
	¢	4,807,829,664,129	4,708,210,280,305

		2021	
		Loans to customers	
		Gross	Net
0	¢	38,542,571,361	37,502,326,225
A1		3,547,626,298,341	3,527,366,818,057
A2		64,839,046,769	64,503,998,476
B1		496,959,517,225	491,930,992,104
B2		19,393,633,811	19,124,251,088
C1		153,800,694,145	149,177,898,668
C2		17,461,789,224	15,542,369,130
D		124,274,772,442	111,374,110,091
E		181,809,736,015	134,784,323,106
	¢	4,644,708,059,333	4,551,307,086,945

As shown above, as of December 31, 2022, the gross portfolio amounts to ¢4,808 billion. Of that amount, 89.34% is classified in risk ratings “A+B” and 10.66% in risk ratings “C+D+E” (2021: ¢4,644 billion, of which 88.89% is classified in risk ratings “A+B” and 11.11% in risk ratings “C+D+E”).

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

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

Year	Cut-off dates
2022	September 30, 2022
	December 31, 2022
2023	March 31, 2023
	June 30, 2023
	September 30, 2023
	December 31, 2023

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

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, according to the risk level assigned by the Bank.

Past due loans without allowance:

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

Restructured loans:

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

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.

(Continued)

In Article 9 of Minutes of Meeting No. 1697-2021, held on November 1, 2021, CONASSIF unanimously established the following final decision: (i) to dismiss Transition Provisions XV), XVI), XVIII) and XIX) starting January 1, 2022; (ii) to extend the application of Transition Provisions XX and XXII until December 31, 2022; and (iii) to add Transition Provision XXIII effective January 1, 2022. These measures are effective from January 1, 2022. This decision was published in Official Gazette No. 225 dated November 22, 2021. Transition Provision XXIII of SUGEF Directive 1-05 *Regulation for Borrower Classification.*

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

a. The number of modifications will begin to be calculated from zero starting January 1 , 2022.

b. The term of 24 months will begin as of January 1, 2022, for all borrowers of the entity's loan portfolio as of December 31, 2021.

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

<u>Loan write-off policy:</u>

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 Article 4 of SUGEF Directive 1-05, borrowers are classified in two groups: Group 1, borrowers whose total outstanding balance exceeds ¢100 million, according to Note SGF-1514-2019 and Group 2, borrowers whose total outstanding balance is less than ¢100 million.

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

	Direct		Stand-by	
Borrower classification	2022	2021	2022	2021
Group 1	¢ 2,532,873,371,471	2,513,142,891,732	46,018,326,296	47,155,749,167
Group 2	2,274,956,292,658	2,131,565,167,601	296,791,008,113	296,312,537,088
	¢ 4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255

Risk ratings

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

For purposes of the analysis of creditworthiness, pursuant to Article 10 of SUGEF Directive 1-05, borrowers in Group 1 are classified based on arrears, historical payment behavior and creditworthiness; whereas, 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:

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

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

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

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

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

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

Analysis of creditworthiness

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

a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.

b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.

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

e. *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.

f. *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.

(Continued)

Structural allowance for loan losses

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

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

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

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

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

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

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:

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

Once Article 12 of SUGEF Directive 1-05 enters into effect and until December 31, 2022, the balance of the allowances recorded for borrowers in risk rating E whose historical payment behavior is classified as Level 3 cannot be decreased due to this amendment.

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

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

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

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

(Continued)

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.

As of December 31, pursuant to the provisions of SUGEF Directive 1-05, the Bank must maintain a structural allowance, as follows:

		2022		
		Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢	133,124,644,086	(99,619,383,824)	33,505,260,262
Allowance for stand-by credits		1,186,743,415	(321,036,394)	865,707,021
Allowance plan per CNS-1698		5,054,000,000	(5,054,000,000)	-
		139,365,387,501	(104,994,420,218)	34,370,967,283
Counter-cyclical allowance per SUGEF Directive 19-16		339,644	(339,644)	-
	¢	139,365,727,145	(104,994,759,862)	34,370,967,283

		2021		
		Allowance booked	Structural allowance	Excess of allowance
Allowance for direct loans	¢	134,968,774,515	(93,400,972,388)	41,567,802,127
Allowance for stand-by credits		862,169,136	(293,237,854)	568,931,282
		135,830,943,651	(93,694,210,242)	42,136,733,409
Counter-cyclical allowance per SUGEF Directive 19-16		339,644	(339,644)	-
	¢	135,831,283,295	(93,694,549,886)	42,136,733,409

Counter-cyclical allowance

As of December 31, 2022 and 2021, the counter-cyclical allowance is valued pursuant to the provisions set forth in SUGEF Directive 19-16 *Regulations to Determine and Book Counter-cyclical Allowances*.

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

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

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

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

Moreover, according to Directive No. CNS 1697-09 dated November 4, 2021, from January 1, 2022 to December 31, 2022, the accrual of counter-cyclical allowances was suspended, and the balance accumulated in counter-cyclical allowances may only be reclassified to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05 and categories 4, 5 and 6 according to Section 2 of Appendix 3 “Standard Methodology” of SUGEF Directive 15-16.

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

Year		Principal	Allowance	Number of operations	Number of customers
December 2021	¢	192,868,048,902	48,171,191,799	11,149	6,209
March 2022	¢	176,840,758,479	51,255,222,310	9,018	6,083
June 2022	¢	199,354,902,788	61,468,095,782	11,299	7,756
September 2022	¢	179,228,674,021	56,045,652,130	13,223	7,900
December 2022	¢	183,914,460,612	56,820,301,219	12,991	7,568

On November 4, 2021, through Transition Provision III of CNS 1697-09, CONASSIF extended the suspension until December 31, 2022, as follows:

i. Extend the application of these regulatory measures until December 31, 2022:
ii. Transition Provision III, which suspended the accrual of counter-cyclical allowances and accepted that the balance accumulated in counter-cyclical allowances may be reclassified to increases in specific allowances for borrowers reclassified to risk ratings C1, C2, D and E, in conformity with Articles 10 and 11 of SUGEF Directive 1-05 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, 2022, the carrying amount of the allowance for impairment of assets held for sale and per legal requirements amounts to ¢60,686,913,169 (2021: ¢58,895,478,390).

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Notes to the Consolidated Financial Statements

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

Sector		Direct 2022	Direct 2021	Stand-by 2022	Stand-by 2021
Trade	¢	351,908,579,098	340,473,557,751	-	-
Services		1,116,136,507,658	1,066,248,297,108	49,117,286,831	49,369,427,583
Financial services		110,315,914,766	91,710,012,724	-	-
Mining		407,792,324	463,219,351	-	-
Manufacturing and quarrying		181,724,162,837	161,949,182,481	-	-
Construction		63,532,421,052	95,457,153,513	-	-
Agriculture and forestry		106,690,835,957	120,134,227,469	-	-
Livestock, hunting and fishing		76,207,761,111	75,220,662,863	-	-
Electricity, water, sanitation and other related sectors		421,563,685,948	467,119,681,713	-	-
Transportation and telecommunications		42,530,110,900	46,304,154,866	-	-
Housing		1,479,874,999,951	1,381,183,646,828	-	-
Personal or consumer		579,698,591,510	517,677,562,806	293,573,614,230	293,974,025,048
Tourism		277,238,301,017	280,766,699,860	118,433,348	124,833,624
	¢	4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255

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

		Direct 2022	Direct 2021	Stand-by 2022	Stand-by 2021
Central America	¢	4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255

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

Type of guarantee		Direct 2022	Direct 2021	Stand-by 2022	Stand-by 2021
Back-to-back	¢	54,481,327,632	45,944,028,635	44,693,951	-
Mortgage bond		56,183,068	-	-	-
Assignment of loans		398,439,106,951	-	-	-
Letters of credit		-	82,199,355	-	-
Mortgage		1,731,416,075,974	2,082,343,389,235	159,554,826	4,175,098
Surety		862,834,197,243	410,984,548,962	14,301,961,682	-
Trust		537,124,000,303	538,911,400,470	36,045,928	-
Securities		26,550,314,551	29,922,331,740	-	-
Chattel mortgage		240,814,505,071	661,670,261,950	-	-
Other		956,113,953,336	874,849,898,986	328,267,078,022	343,464,111,157
	¢	4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255

(Continued)

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, 2022, 61.11% of the loan portfolio is secured by collateral guarantees (2021: 72.34%).

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

		Direct		Stand-by	
Loan portfolio concentration		2022	2021	2022	2021
¢1 to ¢3,000,000	¢	145,113,049,518	138,640,552,337	98,919,837,520	92,372,411,843
¢3,000,001 to ¢15,000,000		558,880,462,902	542,847,559,412	193,128,816,480	196,460,173,611
¢15,000,001 to ¢30,000,000		480,005,803,941	445,945,710,824	6,505,980,282	9,757,761,720
¢30,000,001 to ¢50,000,000		494,927,077,925	479,948,173,158	2,924,191,643	3,131,659,455
¢50,000,001 to ¢75,000,000		476,541,411,564	441,898,045,609	2,830,183,045	2,405,279,653
¢75,000,001 to ¢100,000,000		277,137,739,749	225,120,354,852	1,125,951,824	1,012,954,392
¢100,000,001 to ¢200,000,000		255,327,795,242	234,955,168,985	5,203,247,146	3,471,414,031
More than ¢200,000,000		2,119,896,323,288	2,135,352,494,156	32,171,126,469	34,856,631,550
	¢	4,807,829,664,129	4,644,708,059,333	342,809,334,409	343,468,286,255

As of December 31, 2022 and 2021, the direct and stand-by loans of the portion of the loan portfolio corresponding to economic interest groups amount to ¢602,633,374,501 and ¢667,081,705,255, respectively, equivalent to 12.53% and 14.36% of the loan portfolio, respectively.

For credit risk management purposes, the Conglomerate 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).

(Continued)

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

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

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

The year-on-year decrease observed in the EL of the entire loan portfolio (from 2.65% in December 2021 to 2.58% in December 2022) is mainly explained by a reduction in the arrears indicators. Arrears more than 90 days decreased from 2.77% in December 2021 to 2.63% in December 2022.

Compared to the results from December 2022, the behavior of EL for economic activities showed a mixed result (increases and decreases). The activities with a greater increases are construction and consume, with increases that exceed three percentage points, while the activities with greater decreases are services and trade, with decreases that exceed two percentage points.

For the result of the VaR of the loan portfolio, a year-on-year decrease from 7.97% to 7.41% was booked, which is an expected behavior given the EL evolution and the decrease in arrears indicators.

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

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

Credit risk is considered to be minimal since the Conglomerate'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 Conglomerate monitors the issuers' risk, obtains ratings assigned to issuers by risk rating agencies and maintains access to information necessary for following up on significant events for each issuer that could adversely affect its rating or outlook.

The Conglomerate has established the following procedures to manage credit risk:

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

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

With the entrance into effect of CONASSIF Directive 6-18 *Regulation on Financial Information* (RFI), regulated entities are required to calculate estimated credit losses for their investment portfolios.

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

The calculation of ECL applies only to instruments measured at amortized cost or at FVOCI.

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

(Continued)

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

Portfolio		2022	2021
Investments in financial instruments at FVOCI	¢	70,958,690	76,772,650

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

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

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

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

- Pursuant to the requirements set out in the investment policy, the Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.

- The Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Brokerage Firm considers instruments that may be sold at any point in time.

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

The Brokerage Firm may acquire the following instruments:

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

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

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

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

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

For the December 2022 close, the accounting records showed investments in colones and in US dollars issued by local issuers in colones and issued by foreign issuers in US dollars. The Brokerage Firm holds no investments in DU. By currency, the largest portion continues to be concentrated in the portfolio in colones with 75.14% and 24.86% in US dollars.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica correspond to 75.12% and BNCR 0.02%.

The sum of these issuers represents 75.14% of the consolidated portfolio in colones. The portfolio in US dollars is represented by G issues 16.76%, SDHA issues 4.62%, IHYA 3.28%, and BNSFI 0.20%, for a total of 24.86%.

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

Portfolio		2022	2021
Investments measured at FVOCI	¢	32,558,524	19,612,257
Investments measured at amortized cost	¢	307,132,449	192,389,657

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

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

Credit risk management

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

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

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

		2022	2021
Investments measured at FVOCI	¢	85,026,601	78,609,864

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

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

Credit risk management

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

- Pursuant to the requirements set out in the investment policy, the Insurance Brokerage Firm takes into consideration the ratings granted by rating agencies to local or international issues, in compliance with the provisions of current regulations.

- The Insurance Brokerage Firm assesses the marketability of the instruments based on internally calculated indicators. In the case of investments in the local market, the Insurance Brokerage Firm considers those registered with the National Registry of Securities and Brokers, while for investments in international markets, the Insurance Brokerage Firm considers instruments that may be sold at any point in time.

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

Portfolio		2022	2021
Investments measured at amortized cost	¢	13,890,408	17,633,142

Investments in financial instruments

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

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

Instruments classified under model 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 (FVTPL).

As of December 31, the estimation of instruments by model is as follows:

		2022		
Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated losses
January	¢	3,028,376,036	3,435,687,361	6,464,063,397
February		2,960,079,439	3,386,947,129	6,347,026,568
March		2,903,877,040	3,338,514,680	6,242,391,720
April		2,825,010,732	3,257,783,936	6,082,794,668
May		2,890,501,406	3,162,922,451	6,053,423,857
June		2,942,312,861	3,057,752,055	6,000,064,916
July		2,975,167,942	3,019,586,043	5,994,753,985
August		2,884,739,761	3,071,222,670	5,955,962,431
September		8,814,001,177	2,900,940,134	11,714,941,311
October		2,718,943,291	2,717,637,935	5,436,581,226
November		3,019,617,677	3,066,138,231	6,085,755,908
December		2,930,192,806	2,670,857,408	5,601,050,214

		2021		
Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated losses
January	¢	2,645,232,799	907,120,180	3,552,352,979
February		1,313,682,672	1,716,957,677	3,030,640,349
March		1,418,577,887	1,912,633,323	3,331,211,210
April		1,411,657,446	1,949,143,279	3,360,800,725
May		1,509,832,522	1,891,224,378	3,401,056,900
June		2,570,386,890	3,469,879,404	6,040,266,294
July		2,361,769,969	3,527,314,024	5,889,083,993
August		2,802,696,473	3,614,244,123	6,416,940,596
September		2,687,989,001	3,730,823,727	6,418,812,728
October		2,701,430,245	3,711,589,165	6,413,019,410
November		2,760,423,026	3,829,062,011	6,589,485,037
December		2,801,506,973	3,740,885,431	6,542,392,404

The following table sets out information about the credit quality of financial assets measured at amortized cost as of December 31. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

	12-month PD ranges		2022 Stage 1	2022 Total
Investments at amortized cost	0.34% to 3.21%	¢	876,680,708,850	876,680,708,850
Allowance			(2,930,192,805)	(2,930,192,805)
		¢	873,750,516,045	873,750,516,045

	12-month PD ranges		2021 Stage 1	2021 Total
	0.34% to 3.21%			
Investments at amortized cost		¢	917,505,890,841	917,505,890,841
Allowance			(2,801,506,974)	(2,801,506,974)
		¢	914,704,383,867	914,704,383,867

The following table sets out information about the credit quality of financial assets measured at fair value through other comprehensive income (FVOCI) as of December 31. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

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

	12-month PD ranges		2021 Stage 1	2021 Total
Investments at FVOCI	0.24% to 3.58%	¢	807,216,667,803	807,216,667,803
Allowance			(3,587,340,131)	(3,587,340,131)
		¢	803,629,327,672	803,629,327,672

(Continued)

The following table sets out information about the credit quality of financial assets measured at fair value through profit or loss (FVTPL) as of December 31. Unless specifically indicated, for financial assets the amounts in the table represent gross carrying amounts.

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

		2021	
		Stage 1	Total
Investments in financial instruments at FVTPL	¢	40,139,798,613	40,139,798,613
	¢	40,139,798,613	40,139,798,613

As of December 31, expected credit losses, by currency, are as follows:

		2022	
		Absolute	Relative
Colones	¢	4,061,719,794	34.57%
US dollars		1,694,091,701	5.84%
	¢	5,755,811,495	40.41%

		2021	
		Absolute	Relative
Colones	¢	6,060,429,297	0.62%
US dollars		481,963,107	0.07%
	¢	6,542,392,404	0.69%

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

	2022		
Country	Principal	Interest	Total
Costa Rica	851,717,866,549	17,554,976,205	869,272,842,754
Panama	10,113,432,000	169,533,959	10,282,965,959
Caribbean	188,840,567	2,697,752	191,538,319
United States	508,316,591,311	1,525,856,558	509,842,447,869
Canada	12,971,475,573	94,213,096	13,065,688,669
Venezuela	10,324,064,442	84,626,002	10,408,690,444
Europe	47,382,340,124	336,376,065	47,718,716,189
Asia	3,737,321,430	22,268,019	3,759,589,449
Australia	5,762,794,833	74,193,173	5,836,988,006
New Zealand	324,306,726	2,499,932	326,806,658
	¢ 1,450,839,033,555	19,867,240,761	1,470,706,274,316

	2021		
Country	Principal	Interest	Total
Costa Rica	1,154,985,043,482	17,570,340,520	1,172,555,384,003
Panama	4,516,750,000	8,224,247	4,524,974,247
United States	478,179,153,517	1,470,989,911	479,650,143,427
Canada	16,317,609,479	87,800,652	16,405,410,131
Venezuela	17,955,177,801	103,166,061	18,058,343,862
Europa	68,649,367,384	541,221,995	69,190,589,379
Asia	14,534,459,413	95,667,972	14,630,127,385
Australia	7,302,819,989	83,644,306	7,386,464,295
New Zealand	378,324,103	2,679,581	381,003,684
	¢ 1,762,818,705,168	19,963,735,245	1,782,782,440,413

Key inputs for the measurement of ECL under IFRS 9

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

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

Definition of ratings

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

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

- Equivalence of international ratings:

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

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

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

- Equivalence of local ratings (Ceiling test)

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

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

Amounts arising from expected credit losses

- *Significant increase in credit risk*

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

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

Criteria for significant increase in credit risk (Stage 2)

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

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

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

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

Criteria for objective impairment (Stage 3)

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

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

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

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

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

This analysis is performed in a differentiated manner:

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

Probability of Default (PD)

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

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

Segmentation

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

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

- *External (third parties) or internal credit ratings or scores*
- *Type of instrument*
- *Geographic location*
- *Issuer's currency.*

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

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

- *Allowance for expected credit losses*

As of December 31, 2022, the reconciliation of the opening balance and closing balance of ECL by type of instrument is as follows:

		Stage 1	Total
Investments at amortized cost			
Balance as of December 31, 2021	¢	2,801,506,974	2,801,506,974
Update of the allowance		(17,034,248)	(17,034,248)
Allowance for new investments		739,067,737	739,067,737
Decrease in allowance		(593,347,657)	(593,347,657)
Balance as of December 31, 2022	¢	2,930,192,806	2,930,192,806

		Stage 1	Total
Investments at FVOCI			
Balance as of December 31, 2021	¢	3,565,890,660	3,565,890,660
Update of the allowance		(6,016,141)	(6,016,141)
Allowance for new investments		507,213,621	507,213,621
Decrease in allowance		(1,396,230,731)	(1,396,230,731)
Balance as of December 31, 2022	¢	2,670,857,408	2,670,857,408

As of December 31, 2021, the reconciliation of the opening balance and closing balance of expected credit losses by type of instrument is as follows:

		Stage 1	Total
Investments at amortized cost			
Balance as of December 31, 2020	¢	2,523,044,210	2,523,044,210
Update of the allowance		1,786,369	1,786,369
Allowance for new investments		2,661,310,979	2,661,310,979
Decrease in allowance		(2,384,634,584)	(2,384,634,584)
Balance as of December 31, 2021	¢	2,801,506,974	2,801,506,974

		Stage 1	Total
Investments at FVOCI			
Balance as of December 31, 2020	¢	1,172,676,380	1,172,676,380
Update of the allowance		15,991,300	15,991,300
Allowance for new investments		3,082,800,531	3,082,800,531
Decrease in allowance		(705,577,552)	(705,577,552)
Balance as of December 31, 2021	¢	3,565,890,660	3,565,890,660

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

LCR results are compared with the risk appetite limit approved by the General Board of Directors, which was set at 130% (2021: 125%) for the LCR in colones and in US dollars.

Below is the LCR indicator at the December 2022 and 2021 close, term during which the indicators are considerably above the risk appetite level in both currencies. This means that commitments and net cash outflows for 30 days can be met in an adverse scenario.

Year on year, the LCR indicator in colones reached a level of 185% at the December 2022 close, which is 16% lower than the previous year, related to a fall of 22% in the stock of liquid assets (HQLA) (-¢322,500 million, mainly in government instruments and investments in the local market (MIL). This had an impact that is greater than the fall of 16% in net cash outflows (-¢113,400 million, mainly in wholesale and financial commitments). The LCR indicator remains considerably below the appetite level at 130%, equivalent to ¢331,800 million.

The LCR indicator in US dollars closed at 265% as of December 31, 2022, (2021: 212%), showing a year-on-year increase of 52% arising from an increase of 12% in HQLA (US$153 million, especially in level 1A and Government instruments), accompanied by a decrease of 10% in net cash outflows (-US$62 million, mainly due to the increase in wholesale and financial commitments). The LCR indicator remains considerably above the appetite level at 130%, equivalent to US$730 million.

As of December 31, the LCR indicator by currency is as follows:

LCR indicator	2022	2021	Variation	Level
In colones	185%	201%	(16%)	Appetite
In US dollars	265%	212%	(53%)	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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2022, the terms of the Conglomerate's assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	190,347,041,324	-	-	-	-	-	-	190,347,041,324
Minimum legal deposit in BCCR		-	363,268,231,482	23,209,473,886	18,062,601,089	19,318,832,079	46,526,486,548	53,243,476,848	29,733,319,600	553,362,421,532
Investments		-	2,527,028,297	3,990,007,222	53,378,123,463	58,841,912,798	68,014,648,746	101,466,175,328	440,295,732,303	728,513,628,157
Loan portfolio		199,556,178,225	-	57,766,738,270	42,660,888,843	41,433,915,989	101,584,399,309	138,561,947,854	2,926,701,448,306	3,508,265,516,796
Recovery of assets	¢	199,556,178,225	556,142,301,103	84,966,219,378	114,101,613,395	119,594,660,866	216,125,534,603	293,271,600,030	3,396,730,500,209	4,980,488,607,809
Obligations with the public	¢	-	2,705,828,366,423	123,920,480,899	121,992,872,581	123,621,848,834	293,643,590,943	338,454,539,164	207,749,693,211	3,915,211,392,055
Obligations with BCCR		-	-	-	-	-	-	-	164,696,408,078	164,696,408,078
Obligations with financial entities		-	32,831,105,659	133,622,348,783	11,286,680,000	24,484,555,297	22,027,706,983	10,163,847,062	40,942,417,891	275,358,661,675
Charges payable		-	12,674,191,069	5,426,603,585	4,573,899,735	2,133,121,465	2,728,103,322	2,000,438,355	3,686,263,512	33,222,621,043
Maturity of liabilities	¢	-	2,751,333,663,151	262,969,433,267	137,853,452,316	150,239,525,596	318,399,401,248	350,618,824,581	417,074,782,692	4,388,489,082,851
Difference	¢	199,556,178,225	(2,195,191,362,048)	(178,003,213,889)	(23,751,838,921)	(30,644,864,730)	(102,273,866,645)	(57,347,224,551)	2,979,655,717,517	591,999,524,958

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021, the terms of the Conglomerate's assets and liabilities denominated in local currency are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	202,758,171,974	-	-	-	-	-	-	202,758,171,974
Minimum legal deposit in BCCR		-	272,460,458,486	25,401,777,557	21,644,448,863	16,865,232,640	26,249,933,203	34,610,566,781	21,780,376,782	419,012,794,312
Investments		-	2,227,391,213	194,800,327,106	4,690,499,676	7,421,936,409	14,637,465,811	63,096,695,334	830,927,867,924	1,117,802,183,473
Loan portfolio		198,437,826,871	-	74,588,931,544	39,409,668,189	34,045,787,656	91,608,832,764	134,066,704,901	2,615,418,712,372	3,187,576,464,297
Recovery of assets	¢	198,437,826,871	477,446,021,673	294,791,036,207	65,744,616,728	58,332,956,705	132,496,231,778	231,773,967,016	3,468,126,957,078	4,927,149,614,056
Obligations with the public	¢	-	2,856,866,642,437	175,464,474,645	139,261,158,692	89,622,358,111	205,203,495,498	254,910,149,446	180,666,976,232	3,901,995,255,061
Obligations with BCCR		-	-	-	-	-	-	-	167,292,072,120	167,292,072,120
Obligations with financial entities		-	79,732,549,490	108,871,725,498	9,860,571,079	2,504,254,373	23,136,688,315	19,229,865,988	43,003,250,973	286,338,905,716
Charges payable		-	8,380,832,576	4,415,849,853	2,415,467,434	757,225,983	2,101,127,371	1,236,033,200	2,346,024,151	21,652,560,568
Maturity of liabilities	¢	-	2,944,980,024,503	288,752,049,996	151,537,197,205	92,883,838,467	230,441,311,184	275,376,048,634	393,308,323,476	4,377,278,793,465
Difference	¢	198,437,826,871	(2,467,534,002,830)	6,038,986,211	(85,792,580,477)	(34,550,881,762)	(97,945,079,406)	(43,602,081,618)	3,074,818,633,602	549,870,820,591

As of December 31, 2022, the terms of the Conglomerate's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	404,328,714,934	-	-	-	-	-	166,176,025	404,494,890,959
Minimum legal deposit in BCCR		-	230,196,017,916	10,968,495,181	8,326,052,868	9,249,367,761	19,448,443,688	22,678,428,517	21,803,525,068	322,670,330,999
Investments		-	4,057,391,332	31,858,242,861	12,052,230,421	40,483,303,876	79,629,377,970	229,286,771,295	344,794,420,509	742,161,738,264
Loan portfolio		86,357,056,228	-	19,541,848,408	12,983,645,618	16,612,635,529	65,208,799,638	90,631,961,065	972,056,962,877	1,263,392,909,363
Recovery of assets	¢	86,357,056,228	638,582,124,182	62,368,586,450	33,361,928,907	66,345,307,166	164,286,621,296	342,597,160,877	1,338,821,084,479	2,732,719,869,585
Obligations with the public	¢	-	1,608,888,989,964	64,886,065,676	64,159,917,224	51,649,146,408	139,346,321,809	145,913,954,383	117,855,662,955	2,192,700,058,419
Obligations with financial entities		-	13,014,633,107	122,437,586,500	1,818,009,800	1,252,711,981	476,402,003	174,365,988,470	73,511,912,452	386,877,244,313
Charges payable		-	2,430,574,730	858,433,794	759,331,380	409,977,434	2,599,692,731	670,560,417	775,289,266	8,503,859,752
Maturity of liabilities		-	1,624,334,197,801	188,182,085,970	66,737,258,404	53,311,835,823	142,422,416,543	320,950,503,270	192,142,864,673	2,588,081,162,484
Difference	¢	86,357,056,228	(985,752,073,619)	(125,813,499,520)	(33,375,329,497)	13,033,471,343	21,864,204,753	21,646,657,607	1,146,678,219,806	144,638,707,101

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	404,014,167,772	-	-	-	-	-	198,990,977	404,213,158,749
Minimum legal deposit in BCCR		-	231,576,636,182	11,195,208,626	8,481,748,789	9,063,311,837	22,706,291,394	23,696,617,981	23,137,241,483	329,857,056,292
Investments		-	4,627,572,868	10,739,290,346	38,449,881,629	10,214,050,892	24,905,419,366	68,583,188,422	517,228,209,943	674,747,613,466
Loan portfolio		123,028,797,041	-	29,268,351,446	12,109,924,990	14,374,927,307	70,517,166,646	98,662,971,838	1,077,727,127,833	1,425,689,267,101
Recovery of assets	¢	123,028,797,041	640,218,376,822	51,202,850,418	59,041,555,408	33,652,290,036	118,128,877,406	190,942,778,241	1,618,291,570,235	2,834,507,095,608
Obligations with the public	¢	-	1,512,391,509,747	62,441,974,800	65,946,194,449	72,086,143,799	154,831,043,004	171,625,087,793	129,075,177,030	2,168,397,130,622
Obligations with financial entities		-	34,469,462,484	113,876,208,292	496,842,500	43,298,856	2,373,718,961	6,539,884,039	361,235,751,771	519,035,166,903
Charges payable		-	2,435,098,561	886,287,003	675,765,576	323,004,291	3,994,673,495	724,327,059	808,784,051	9,847,940,036
Maturity of liabilities	¢	-	1,549,296,070,792	177,204,470,095	67,118,802,525	72,452,446,946	161,199,435,460	178,889,298,891	491,119,712,852	2,697,280,237,561
Difference	¢	123,028,797,041	(909,077,693,970)	(126,001,619,677)	(8,077,247,117)	(38,800,156,910)	(43,070,558,054)	12,053,479,350	1,127,171,857,383	137,226,858,046

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

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

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

Liquidity risk management

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 Division. It approves the Investment Fund Manager's liquidity policies and procedures. The Treasury department manages the liquidity position on a day-to-day basis and reviews daily reports on the liquidity position.

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

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

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

Management of liquidity risk

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

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

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

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

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

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

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

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

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

Liquidity risk management

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 Pension Fund Manager and the characteristics of the pension plan, according to the need arising from the nature of the Pension Fund Manager itself.

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

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

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

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

Liquidity risk management

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 meets its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. A key element of the Insurance Brokerage Firm's liquidity strategy is to carry a portfolio of highly liquid assets that match the maturities of the main liabilities.

c) *Market risk*

i. *Banco Nacional de Costa Rica*

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

Indicator	Limit	Level
Consolidated VaR	3.20%	Appetite
Currency risk	3.50%	Appetite
Interest rate risk – colones	2.00%	Appetite
Interest rate risk – foreign currency	2.00%	Appetite

The main indicator used is the market VaR of the Bank's investments, which is quantified by means of an internal methodology and measured 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:

	Face value of investments by currency		
Currency	2022	2021	Variation
Colones	642,587,522,000	989,410,200,000	(346,822,678,000)
US dollars - local issuers	215,789,246	84,885,160	130,904,086
US dollars - international issuers	1,000,615,000	922,753,000	77,862,000

As of December 31, the duration for each currency has presented variations according to strategic portfolio management, with an increase in colones, local US dollars and international US dollars.

Currency	2022	2021	Variation
Colones	0.70	1.08	(0.38)
US dollars - local issuers	1.30	1.30	0.00
US dollars - international issuers	0.89	1.40	(0.51)

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

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

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

Market risk management

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

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

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 specified.

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

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

Market risk exposure – trading portfolio:

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

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

	2022	2021
VaR indicator (99%)	0.99	0.96%

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

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

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

Market risk management

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

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

Market risk exposure

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

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

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

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

Market risk management

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

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

Market risks are calculated since the end of 2003. A database is in place to determine the corresponding limits. The potential loss is calculated daily in view of the changes in risk factors that affect the valuation of positions, such as interest rate changes. For such purposes, the RiMeR methodology is used, which was internally developed by the Mathematical Modeling and Market Risk Divisions of the Bank.

This methodology permits calculating the VaR of portfolios comprised of fixed income instruments. The model considers yield curves, rate model parameter estimation, scenario simulations and calculation of VaR. This methodology uses a two-factor rate model (G2++ model), which involves decomposing the short rate into two processes and a deterministic function to be selected.

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.

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.

- *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 increased during the last year. During the last 12 months until December 2022, this indicator continued to present a behavior with an upward trend, with an average VAR value of 0.54%, due to a higher volatility observed in the prices of the instruments in the investment portfolio.

Type of risk	2022	2021	Variation
Consolidated VaR	0.42%	0.44%	0.02%

The results of the individual VaR by currency regarding the market value at the December 2022 close and the variation with respect to the same period of the previous year are as follows:

Currency	2022	2021	Variation
Colones	0.58%	0.61%	(0.03)
US dollars - local	0.29%	0.56%	(0.27)
US dollars - international	0.55%	0.29%	0.26

- *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 *Regulations for Determining the Economic and Financial Position of Regulated Entities* and reports monthly on its performance to the Bank's Corporate Risk Committee. As of December 31, interest rate risk is as follows:

Type of risk	2022	2021	Variation	Level
Interest rate risk in colones	0.12%	0.18%	(0.06)%	Normal
Interest rate risk in foreign currency	1.51%	0.04%	1.47%	Normal

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

The interest rate risk indicator in colones decreased mainly due to the decrease in the duration of equity in colones and a lower expected variation of the base deposit rate, given that it increased during the 2022. By the end of the year, the rate of growth of that reference rate decelerated. In US dollars, the increase is also due to the increase in the expected variation of the 3-month LIBOR rate from the second quarter of 2022.

As of December 31, 2022, the interest rate terms for the Conglomerate's assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)									
Investments	¢	2,527,028,297	3,888,537,319	112,049,987,199	68,002,932,859	101,780,992,038	177,476,256,678	261,400,321,818	727,126,056,208
Loan portfolio		-	2,965,133,187,238	119,297,071,096	113,789,732,509	16,171,980,681	16,903,150,012	107,101,435,092	3,338,396,556,628
Recovery of rate-sensitive assets LC (A)	¢	2,527,028,297	2,969,021,724,557	231,347,058,295	181,792,665,368	117,952,972,719	194,379,406,690	368,501,756,910	4,065,522,612,836
Obligations with the public	¢	-	206,540,109,325	288,092,977,911	318,399,401,251	347,450,074,439	99,093,766,012	122,994,179,328	1,382,570,508,266
Obligations with BCCR		-	24,034,000,000	-	-	-	-	166,961,956,341	190,995,956,341
Obligations with financial entities LC		-	33,122,128,072	-	-	-	-	31,181,086,370	64,303,214,442
Maturity of rate-sensitive liabilities LC (B)	¢	-	263,696,237,397	288,092,977,911	318,399,401,251	347,450,074,439	99,093,766,012	321,137,222,039	1,637,869,679,049
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,527,028,297	2,705,325,487,160	(56,745,919,616)	(136,606,735,883)	(229,497,101,720)	95,285,640,678	47,364,534,871	2,427,652,933,787
Foreign currency (FC)									
Investments	¢	-	31,933,969,888	55,027,433,514	74,334,816,389	236,066,912,394	253,256,681,784	91,386,100,739	742,005,914,708
Loan portfolio		-	1,067,343,263,800	39,751,065,845	23,248,995,128	2,555,987,034	21,355,399,817	60,243,343,386	1,214,498,055,010
Recovery of rate-sensitive assets FC (C)	¢	-	1,099,277,233,688	94,778,499,359	97,583,811,517	238,622,899,428	274,612,081,601	151,629,444,125	1,956,503,969,718
Obligations with the public	¢	-	175,866,867,896	120,050,689,819	140,904,884,024	254,202,181,012	60,715,227,507	84,860,975,763	836,600,826,021
Obligations with BCCR		-	12,641,790,000	-	-	-	-	-	12,641,790,000
Obligations with entities		-	-	-	524,408,424	60,199,296,305	3,212,941,028	48,159,200,000	112,095,845,757
Maturity of rate-sensitive liabilities FC (D)	¢	-	188,508,657,896	120,050,689,819	141,429,292,448	314,401,477,317	63,928,168,535	133,020,175,763	961,338,461,778
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	910,768,575,792	(25,272,190,460)	(43,845,480,931)	(75,778,577,889)	210,683,913,066	18,609,268,362	995,165,507,940
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,527,028,297	4,068,298,958,245	326,125,557,654	279,376,476,885	356,575,872,147	468,991,488,291	520,131,201,035	6,022,026,582,554
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	452,204,895,293	408,143,667,730	459,828,693,699	661,851,551,756	163,021,934,547	454,157,397,802	2,599,208,140,827
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,527,028,297	3,616,094,062,952	(82,018,110,076)	(180,452,216,814)	(305,275,679,609)	305,969,553,744	65,973,803,233	3,422,818,441,727

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)									
Investments	¢	2,227,391,213	194,693,571,177	11,953,832,056	14,636,012,871	63,084,490,979	375,815,643,901	423,533,360,685	1,085,944,302,882
Loan portfolio		-	2,705,191,227,790	108,854,598,187	103,821,839,006	14,774,010,382	46,553,810,482	96,246,511,122	3,075,441,996,969
Recovery of rate-sensitive assets LC (A)	¢	2,227,391,213	2,899,884,798,967	120,808,430,243	118,457,851,877	77,858,501,361	422,369,454,383	519,779,871,807	4,161,386,299,851
Obligations with the public	¢	-	275,310,206,765	244,169,508,245	230,441,311,183	273,233,954,212	104,814,761,226	88,505,568,024	1,216,475,309,655
Obligations with BCCR		-	14,174,000,000	500,000,000	-	-	-	168,243,245,538	182,917,245,538
Obligations with financial entities LC		-	67,003,848	-	-	-	-	34,352,702,356	34,419,706,204
Maturity of rate-sensitive liabilities LC (B)	¢	-	289,551,210,613	244,669,508,245	230,441,311,183	273,233,954,212	104,814,761,226	291,101,515,918	1,433,812,261,397
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,227,391,213	2,610,333,588,354	(123,861,078,002)	(111,983,459,306)	(195,375,452,851)	317,554,693,157	228,678,355,889	2,727,574,038,454
Foreign currency (FC)									
Investments	¢	-	12,115,557,349	51,872,813,974	17,100,363,502	72,914,654,087	335,186,210,074	177,834,310,040	667,023,909,026
Loan portfolio		-	1,204,199,665,568	44,848,008,902	26,230,017,191	2,883,719,639	24,093,622,164	67,952,603,036	1,370,207,636,500
Recovery of rate-sensitive assets FC (C)	¢	-	1,216,315,222,917	96,720,822,876	43,330,380,693	75,798,373,726	359,279,832,238	245,786,913,076	2,037,231,545,526
Obligations with the public	¢	-	172,491,092,816	139,557,064,120	160,676,665,595	176,753,860,348	273,343,894,813	100,157,006,766	1,022,979,584,458
Obligations with BCCR		-	5,226,525,000	-	-	-	-	-	5,226,525,000
Obligations with entities		-	-	-	517,224,380	635,197	64,525,000,000	55,281,406,600	120,324,266,177
Maturity of rate-sensitive liabilities FC (D)	¢	-	177,717,617,816	139,557,064,120	161,193,889,975	176,754,495,545	337,868,894,813	155,438,413,366	1,148,530,375,635
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	1,038,597,605,101	(42,836,241,244)	(117,863,509,282)	(100,956,121,819)	21,410,937,425	90,348,499,710	888,701,169,891
Recovery of rate-sensitive assets 1/ (A + C)	¢	2,227,391,213	4,116,200,021,884	217,529,253,119	161,788,232,570	153,656,875,087	781,649,286,621	765,566,784,883	6,198,617,845,377
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	467,268,828,429	384,226,572,365	391,635,201,158	449,988,449,757	442,683,656,039	446,539,929,284	2,582,342,637,032
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	2,227,391,213	3,648,931,193,455	(166,697,319,246)	(229,846,968,588)	(296,331,574,670)	338,965,630,582	319,026,855,599	3,616,275,208,345

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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 an increasing trend, with a maximum of 5.07% and a minimum of 0.39% for an average of 1.33%, equivalent to ¢154.23 million. As of December 31, 2022, the indicator closed at 4.92% (2021: 2%), showing an increase due to the portfolio's portion of fixed-rate investments, because the indicator shows the portfolio volatility with respect to market interest rates.

iv. *BN 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, 2022 and 2021, the Insurance Brokerage Firm has investments in open investment funds managed by BN Sociedad Administradora de Fondos de Inversiones S.A. which are financial assets measured at fair value through profit or loss and subject to interest rate changes due to fluctuations in the stock market since short-term positions are constituted to meet investor's liquidity needs. The remainder of the investment portfolio is kept in financial instruments measured at amortized cost, whose market interest rate variations are monitored on an ongoing basis by BN Valores, in its role as manager of the portfolio of BN Corredora with quarterly reports to the Insurance Brokerage Firm. The Insurance Brokerage Firm holds no liabilities subject to interest rate variations.

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d) *Currency risk*

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

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

i. *Banco Nacional de Costa Rica*

The 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.

As of December 31, the Bank calculates the SUGEF currency risk indicator on a monthly basis, which remains at the appetite level from September 2018 until now. The indicator has increased significantly, which is an expected behavior due to an increase in the volatility of the exchange rate from the second quarter of 2022.

Type of risk	2022	2021	Variation	Level
Currency risk	2.74%	0.81%	1.93%	Normal

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

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

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

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

As of December 31, with the calibrated model and through Montecarlo simulations, exchange rate forecasts are created for different periods. The 5th or 95th percentiles of the distribution of those forecasts are used as the percentage variation of the exchange rate in order to calculate the indicator of the VaR of exchange rate. The result is as follows:

Internal currency risk	2022	2021	Level	Variation
5th percentile	0.34%	0.11%	Normal	0.23
95th percentile	0.49%	0.19%	Normal	0.30

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

		US dollars	
		2022	2021
Assets:			
Cash and due from banks	US$	1,148,562,027	1,080,187,048
Investments in financial instruments		1,232,847,287	1,036,752,668
Loan portfolio		2,025,597,121	2,137,642,423
Accounts and accrued interest receivable		481,986	618,457
Investments in other companies		121,789,525	118,964,964
Property, furniture and equipment		443,031	-
Other assets		1,955,077	2,131,248
	US$	4,531,676,054	4,376,296,808
Liabilities:			
Obligations with the public	US$	3,591,546,305	3,321,683,148
Obligations with entities		643,881,571	797,979,647
Subordinated obligations		114,467,301	13,382,865
Accounts payable and provisions		15,496,818	90,456,989
Other liabilities		18,780,287	9,792,719
	US$	4,384,172,282	4,233,295,368
Excess of assets over liabilities in US dollars	US$	147,503,772	143,001,440

		Euro	
		2022	2021
Assets:			
Cash and due from banks	€	55,640,536	48,713,203
	€	55,640,536	48,713,203
Liabilities:			
Obligations with the public	€	54,312,812	43,973,053
Obligations with entities		1,363,523	1,567,667
Accounts payable and provisions		3,017	2,857
Other liabilities		9,000	2,432,526
	€	55,688,352	47,976,103
Deficit of assets over liabilities in euro	€	(47,816)	737,100

		DU	
		2022	2021
Assets:			
Loan portfolio		39,256	1,053,411
	UD	39,256	1,053,411
Liabilities:			
Accounts payable and provisions	UD	24,450	94,411
	UD	24,450	94,411
Excess of assets over liabilities in DU	UD	14,806	959,000

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

(Continued)

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:

		2022	2021
Gain on foreign exchange differences	¢	623,748,671,770	216,586,540,961
Loss on foreign exchange differences		(624,361,789,730)	(216,253,114,094)
Net loss (gain)	¢	(613,117,960)	333,426,867

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

		2022	2021
Gain on net valuation of other assets (Note 42)	¢	577,749,420	171,701,168
Loss on net valuation of other liabilities		(282,117,584)	(286,917,462)
Net gain (loss)	¢	295,631,836	(115,216,294)

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

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

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

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

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

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 remains at an acceptable level by holding sufficient assets in US dollars to be able to settle its liabilities in that currency.

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

As of December 31, 2022, the Pension Fund Manager's exposure to currency risk, considering its net assets in US dollars, was 9.76% (¢1,151.93 million) of total net assets, representing a decrease in comparison to December 31, 2021, where it closed at 7.90% (¢1,281.39 million).

Sensitivity analysis

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

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

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

Impact on profit or loss as of December 31, 2022			
1%	2%	(1)%	(2)%
2,500,000	5,000,000	(2,500,000)	(5,000,000)

As of December 31, 2022, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢57.6 million (2021: ¢64.21 million). A decrease of 5% would generate the opposite effect.

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

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

e) Operational risk

i. *Banco Nacional de Costa Rica*

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

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

That policy is implemented through a management framework that includes:

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

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

(Continued)

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.

In addition, there is another model to calculate litigation provisions based on historical probability, by lawyer and by subject matter, which allows addressing potential unfavorable rulings.

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

(Continued)

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

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

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

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

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

- Analysis: Using tools defined by international methods, the Investment Fund Manager analyzed the risks identified for each business unit and determined the degree of impact, the probability of occurrence and the origin of each risk. In addition to this analysis, the Investment Fund Manager assesses aspects of the business that can affect risk such as its image, operations, income, human resources, etc.

- Measurement: Similar to the analysis mentioned above, each risk identified was assessed from two perspectives (its probability of occurrence and its potential impact) in order to determine which risks require the most attention and the formulation of action plans to be carried out in the event that the risk materializes. Such information is included in the Business Continuity Plan (BCP).

- Follow-up: Periodic assessments are made of the institutional risk map to identify changes that could increase or decrease the probability that risk events will occur in order to adapt the Investment Fund Manager's strategies to address areas in which risk exposures are considered unacceptable.

- Control: The Investment Fund Manager's strategies to control and mitigate the potential impact of different operational risks include contingent computer hardware, a redundant power infrastructure, personnel turnover, documentation of the activities performed by each position, specialized training, varied and continually open channels of communication, development of a general culture focused on operational controls, etc.

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

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

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

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

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

Fair value of financial instruments

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

(Continued)

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

(a) The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments.

(b) Investments measured at FVTPL are booked at fair value. The fair 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.

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

(Continued)

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

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

Capital risk management

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

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

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

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

Contract risk: This risk is assumed when the Pension Fund Manager makes investments with its own funds or the funds it manages. Accordingly, the contracts must comply with the regulations in effect and the 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.

(Continued)

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

As of December 31, 2022, the results of the VaR by legal risk for the Pension Fund Manager correspond to an estimate of the provision for pending litigation in the amount of ¢36,129,698 (2021: ¢35,306,947) that covers the lawsuits against the Pension Fund Manager, out of seven pending lawsuits.

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

Operational risk is the risk of possible direct or indirect loss arising from operating processes, personnel, technology and infrastructure, in addition to external factors other than credit, market and liquidity risks. Operational risk is an inherent risk for the sector in which the Insurance Brokerage Firm operates and for all of its main activities. It manifests as failures, errors, business interruptions or inappropriate employee behavior and may cause financial loss, penalties from regulatory authorities or reputational damages.

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 conglomerate level, the Comprehensive Risk Management Unit (Unidad de Administración Integral del Riesgo, 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 Internal Audit. The results of such reviews are discussed with the personnel of the Insurance Brokerage Firm.

Capital risk: This is the risk that the Insurance Brokerage Firm will not have sufficient capital to meet the minimum regulatory requirements in all jurisdictions where regulated activities are performed, so as to support its credit rating and its strategic and growth options. The Insurance Brokerage Firm is regulated by the Superintendency General of Insurance (SUGESE), which establishes the capital requirements.

Capital risk management

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

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

Exposure to capital risk

The Insurance Brokerage Firm’s regulatory capital consists of:

- Common Equity Tier 1 (CET1), which includes ordinary shares, retained earnings and reserves after the adjustments for dividends declared payable, intangible assets, and other regulatory adjustments related to items included in equity but treated differently for capital adequacy purposes.

The Insurance Brokerage Firm’s capital plans have the goal of maintaining sufficient capital of adequate quality to support its risk profile and the regulatory and business needs.

The Insurance Brokerage Firm has met the minimum capital requirements indicated by the regulator.

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

Legal risk management covers three types of events:

- Contract risk: to the extent that the clauses included in the contracts adhere to the regulations in effect and guarantee compliance by the parties. Legal actions are coordinated and support is obtained from the Bank so that, from a legal perspective, all documents subscribed with third parties are reasonably secure.
- Risk of regulatory compliance: regarding the scope and the adoption of regulations in effect on the Insurance Brokerage Firm's operations, there is a Regulatory Compliance area. Its main functions include a systematic and comprehensive review of the elements of specific regulations in the event of a deviation.
- Litigation risk: UAIR follows up monthly on the lawsuits in which the Insurance Brokerage Firm is involved. These are duly communicated and registered by management in the database of the Bank's Legal Department. Mathematical models are applied to calculate the amounts of expected losses and value at risk.

The Bank's General Risk Division communicates monthly the results of the VaR due to legal risks for the Brokerage Firm and estimated losses. Currently there is only one lawsuit against the entity, which is in first instance and is estimated in the amount of ¢3,500,000 (2021: ¢2,840,000).

Capital management:

Regulatory capital

The Bank's capital must always comply with the capital adequacy indicators established by SUGEF, which require that banks maintain a Capital Adequacy Ratio (CAR) of at least 10%. 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.

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 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 Conglomerate adheres to SUGEF's Chart of Accounts, Articles 10, 11 and 12 of IRNBS, Decision AGB 8-86, *Regulations for Authorizing the Organization, Opening and Operation of Private Banks* and SUGEF official communication 043-2005.

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

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

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

(Continued)

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

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

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

As of December 31, 2022 and 2021, the Conglomerate's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

Moreover, in applying Law No. 8627, *Law on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008*, 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 No. 311 (see Note 26).

COVID 19 implications for the Conglomerate

According to the most recent statistics on infection and deaths due to the COVID 19 pandemic (declared as such by the World Health Organization at the beginning of 2020), there are over 623 million people infected and 6.56 million deaths. By mid-2021, the government reduced social isolation measures in order to gradually resume the different economic activities. However, in many countries, to avoid another wave of infection due to the appearance of new strains of the virus, confinement measures we applied once again, affecting different economic activities.

In Costa Rica as of the 2022 close there were 1.17 million confirmed cases and more than 9,100 deaths.

Economic outlook

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

Indicator	Values
Unemployment	11.6%
Monthly index of economic activity (IMAE) year-on-year	2.2%
Financial deficit	1% of GDP
Primary deficit	(2.3%) of GDP
Trade balance (cumulative)	US$(5.4) M
Central government debt	63.1% of GDP
CPI December	0.14% per month 8.26% year-on-year

International context:

Inflation rates continue to be high. In the United States, the year-on-year inflation increased to 6.5% in December, lower than the rate in November and October (7.1% and 7.8%, respectively). However, the rate continues to be high. In the eurozone, inflation year-on-year located at 9.2% in December (10.1% and 10.6% in November and October, respectively), with an expected decrease to 9.2% in December (Eurostat's preliminary data). The underlying component in the eurozone increased from 5.0% in November to 5.2% in December (preliminary numbers). To fight against high prices, mainly due to energy and food, central banks are expected to increase interest rates in the future.

The short-term indicators suggest that the economic slowdown will remain in the fourth quarter of 2022, while the World Bank forecasts that the world growth will slow down at 1.7% in 2023. The confidence indicators for the member countries of the Organization for Economic Cooperation and Development (OECD) show an impairment in the confidence of both consumers and businessmen.

The World Bank foresees a low growth for Latin America and the Caribbean in 2023. The economic recovery that the Latin American region has experienced during 2022 after the COVID-19 crisis is noticeable. The World Bank has foreseen a growth of 3.6% of the Gross Domestic Product (GDP) in Latin America and the Caribbean for 2022. However, it is forecasted that the regional growth will drop to 1.3% in 2023 and 2.4% in 2024 as a result of the increase in raw material prices, more restrictive policies or financial stress to face high inflation, high interest rates the global uncertainty generated by the conflict between Russia and Ukraine and the little confidence from consumers and businessmen.

(Continued)

Thus, with slow growth in the United States and China, a reduction in the demand for exports is foreseen.

National context:

The economic activity no longer decelerates and slightly increases with respect to the prior month. The cycle trend of the Monthly Economic Activity Index (IMAE) showed a year-on-year variation of 3.2% as of November, decreasing by 6 percentage points (p.p.) with respect to the one registered one year ago and decreasing by 0.1 p.p. with respect to the prior month.

At the December close, the year-on-year variation of the consumer price index (CPI) was 7.88%, the greatest accumulated annual increase recorded in the last 14 years, with a monthly CPI variation of +0.13%. According to the press release of the National Institute of Census and Statistics (INEC), of the 289 goods and services that comprise the CPI, 52% increased the price, 34% decreased the price, and 14% did not show variations.

The goods and services that showed the greatest positive effect on the monthly CPI variation were tomatoes, tour packages (abroad) and onions. Increases in the prices of products and services that are seasonal were partially compensated by decreases in the exchange rate of the US dollar, among other.

Monetary policy: In line with the monetary policies of the main world economies, last October 25, 2022, the board of directors of BCCR agreed to increase the Monetary Policy Rate by 50 base points (bp), locating at 9%. With this increase, the Monetary Policy Rate shows an increase of 825 bp since December 15, 2021.

As per fiscal matters, the Ministry of the Treasury pointed out that the fiscal income surpassed the goal agreed with the International Monetary Fund (IMF). As of November 2022, the public finances showed a greater primary surplus equivalent to 2.3% of the GDP and a lower financial deficit of 2.0% of the GDP with respect to the same term one year ago (4.1% of the GDP). This behavior is due to the improvement in tax collection and a drop in the growth rate of the expense. Nevertheless, interest payment is around 4.2% of the GDP, with 84.4% associated with internal debt payment.

According to OECD's economic perspectives for Costa Rica (November 2022), compliance with the fiscal regulations will control public spending, allowing the government to meet its tax goals. The central government's need for net financing is expected to decrease to 4% in 2022, 2.6% in 2023 and 2.2% in 2024.

Actions taken by the Bank

As indicated in previous reports, the Conglomerate has adopted a series of measures to offset the effects of the pandemic and protect the entities' capital. Those measures have been adapted as the pandemic evolves and to the adjustments in the health and regulatory measures taken by the authorities.

- *Credit risk*

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

- implementation of a plan to monitor repayment capacity (creditworthiness) from a quantitative point of view and with a greater qualitative focus
- development of the "Juntos al Amanecer" program to provide affected customers with working capital
- program to restructure principal and interest payments, for terms of three to nine months
- restructuring strategy by profiles.

The following continue in effect:

- ongoing monitoring of high-risk customers
- improvements in collection strategies and plans
- creation of an allowance "cushion" amounting to ¢34,370 million as of the December close.

- *Interest rate risk*

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

- *Liquidity risk*

  - The liquidity coverage ratio for 5 and 10 days is sent weekly as part of the information requested by BCCR for analysis of the last-minute loan requests.
  - Daily monitoring of the main liquidity indicators.
  - Bi-weekly stress testing of liquidity indicators reported to the board of directors.
  - Lines of credit with foreign entities are requested.

- *Price risk*

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

- *Currency risk*

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

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

(7) Collateralized or restricted assets

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

Restricted asset	Cause of restriction		2022	2021
Cash and due from banks:				
Checking account - colones (Note 9)	Minimum legal deposit	¢	602,974,731,866	486,421,991,516
Checking account - US dollars (Note 9)	Minimum legal deposit		338,611,316,346	333,197,818,556
Checking account - euro (Note 9)	Minimum legal deposit		5,270,508,245	4,919,236,524
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments		22,409,216	17,705,021
Other cash and due from banks (Note 9)	Contingent guarantee of the deposit guarantee fund (FGD)		125,997,691,316	122,256,193,104
Other cash and due from banks (Note 9)	FOGABONA		166,176,025	287,351,062
		¢	1,073,042,833,014	947,100,295,783
Investments in financial instruments:				
Investments in financial instruments	Liquidity market operations	¢	45,872,694,079	31,296,977,125
Securities issued by BCCR and the Government	Investments securing repurchase agreements		2,306,487,720	2,685,689,808
Sovereign bond in USD	Bofa Swaps		1,181,869,342	-
Sovereign bond in USD	Nomura Bank guarantee		87,204,354,223	-
External debt bonds	Nomura Bank guarantee		-	68,236,937,961
External debt bonds	SINPE guarantee		-	215,666,380,475
Term certificate of deposit	Nomura Bank guarantee		-	25,810,000,000
Sovereign bond in USD	SINPE guarantee		219,986,936,563	-
Sovereign bond in USD local	SINPE guarantee		2,789,019,670	-
TP USD	SINPE guarantee		14,922,877,513	-
		¢	374,264,239,110	343,695,985,369
Other assets				
Other assets (Note 17)	Security deposits	¢	532,881,814	1,023,835,140

As of December 31, 2022, the Brokerage Firm has restricted assets in the amount of ¢45,782,694,079 (2021: ¢31,311,875,880), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

As of December 31, 2022, the Pension Fund Manager has restricted assets in the amount of ¢2,306,487,720 (2021: ¢2,685,689,808) corresponding to investments pledged to secure repurchase agreements.

(8) Balances and transactions with related parties

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

		2022	2021
Assets:			
Checking accounts in foreign financial entities *(1)* (Note 9)	¢	46,029,904,199	21,945,597,789
Investments in financial instruments and accrued interest receivable *(2)*		7,801,199,980	32,238,842,735
Accounts receivable		-	228,512
Investments in other companies *(2)*		73,265,452,967	76,711,519,445
	¢	127,096,557,146	130,896,188,481
Liabilities:			
Demand obligations with entities *(3)*		44,277,901	107,286,096
Accounts due to related parties *(4)*		967,596	1,741,064
	¢	45,245,497	109,027,160
Income:			
Gain on investments in other foreign companies		1,952,980,119	1,172,039,559
		1,952,980,119	1,172,039,559
Expenses:			
Operating expenses *(5)*		44,171,143	47,464,807
	¢	44,171,143	47,464,807

The aforementioned balances and transactions with related parties correspond to:

(1) Balances in foreign checking accounts with Banco Internacional de Costa Rica, S.A., which bear interest at 2.25% per annum for both years

(2) Investments in the share capital of entities over which the Bank exercises control or significant influence

(3) Movements in transit of the subsidiaries’ checking accounts with the Bank

(4) Balance of the subsidiaries’ term certificates of deposit with the Bank

(5) Services of the Bank’s procedures and self-issue insurance unit (*Unidad de Trámites y Autoexpedibles*) and custody rental system.

a) Compensation to key personnel

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

		2022	2021
Short-term benefits	¢	2,214,747,107	2,112,224,059
Long-term benefits		287,917,124	274,589,128
Per diem – Board of directors		126,607,460	204,479,433
	¢	2,629,271,691	2,591,292,620

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 Conglomerate performs a transfer pricing study.

(9) Cash and cash equivalents

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

		2022	2021
Cash and due from banks	¢	1,470,874,684,814	1,355,841,181,326
Investments with maturities of less than two months		107,863,023,596	255,534,962,838
	¢	1,578,737,708,410	1,611,376,144,164

As of December 31, cash and due from banks is as follows:

		2022	2021
Cash on hand and in vaults	¢	71,076,632,513	94,766,425,499
Cash in transit		49,869,760,013	58,255,934,323
Checking account in BCCR *(1)*		47,649,998,049	65,849,314,821
Minimum legal deposits in BCCR *(2)*		828,382,754,482	683,020,535,782
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws		216,788,828	278,613,154
Checking accounts and other demand accounts in private financial entities		488,049,608	992,017,393
Checking accounts in foreign financial entities		291,062,460,495	300,162,110,106
Deposits and other demand accounts in foreign financial entities		4,802,609	33,536,854
Checking accounts and demand deposits in related parties (Note 8)		46,029,904,199	21,945,597,789
Overnight deposits in foreign financial entities		2,460,374,162	878,432,794
Transfers through the Interbank Electronic Payment System (SINPE)		1,476,067,946	1,360,638,705
Local notes receivable		4,614,692,783	4,373,095,594
Foreign notes receivable		1,356,122,570	1,363,679,325
Margin calls – derivative financial instruments (Note 7)		22,409,216	17,705,021
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)		166,176,025	287,351,062
Contingent guarantee of the deposit guarantee fund (Fondo de Garantía de Depósitos, FGD)		125,997,691,316	122,256,193,104
	¢	1,470,874,684,814	1,355,841,181,326

(1) Checking accounts and demand deposits in BCCR include the balances of the minimum legal deposits required for each period, 2022 and 2021 (see Note 7).

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

(Continued)

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

Minimum legal deposit rates
15%

(10) Investments in financial instruments

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

		2022	2021
Investments at FVTPL	¢	24,433,857,502	40,139,798,613
Investments at FVOCI		585,704,089,628	807,216,667,803
Investments at amortized cost		840,653,764,943	917,505,890,841
	¢	1,450,791,712,073	1,764,862,357,257
Interest rate futures – Hedges		4,185,715	7,723,704,438
Sale of FX futures - Other than hedges		12,227,870	-
Allowance for impairment of investments		(2,930,192,806)	(2,801,506,974)
Accrued interest receivable on investments		19,867,240,764	19,963,735,244
	¢	1,467,745,173,616	1,789,748,289,965

a) Investments at fair value through profit or loss

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

		2022	2021
Local issuers			
Private banks		-	33,238,828,201
Private issuers		20,476,710,400	2,382,923,616
	¢	20,476,710,400	35,621,751,817

		2022	2021
Foreign issuers			
Private issuers		3,957,147,102	4,518,046,796
		3,957,147,102	4,518,046,796
	¢	24,433,857,502	40,139,798,613

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

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

		2022	2021
Local issuers			
Government of Costa Rica	¢	404,669,651,038	521,907,049,285
BCCR		13,252,898,512	36,858,432,072
State-owned banks		(24,500,000)	3,632,560,534
Private banks		-	645,545,744
Private issuers		2,306,487,720	2,685,689,808
	¢	420,204,537,270	565,729,277,443

		2022	2021
Foreign issuers			
Governments	¢	37,513,503,153	53,201,249,628
Private issuers		51,069,926,429	82,109,125,018
Private banks		76,916,122,776	106,177,015,714
		165,499,552,358	241,487,390,360
	¢	585,704,089,628	807,216,667,803

c) *Investments at amortized cost*

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

		2022	2021
Local issuers			
Government of Costa Rica	¢	320,405,325,593	261,424,353,274
BCCR		73,797,417,371	284,729,758,820
Private banks		12,461,193,000	5,807,250,000
Private issuers		4,325,361,390	3,716,304,135
	¢	410,989,297,354	555,677,666,229
Foreign issuers			
Governments	¢	402,225,250,075	320,363,678,407
Private issuers		3,074,135,134	6,264,129,696
Private banks		24,365,082,380	35,200,416,509
		429,664,467,589	361,828,224,612
	¢	840,653,764,943	917,505,890,841

As of December 31, 2022, the valuation of investments in financial instruments and restricted financial instruments gave rise to unrealized losses, net of deferred tax, in the amount of ¢20,572,807,920 (2021: unrealized gains in the amount of ¢435,467,921). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized losses of ¢9,511,384,618 (2021: unrealized gains in the amount of ¢11,061,423,302).

(Continued)

As of December 31, the following table shows the rating of investments by classification:

			2022	2021
Central Bank of Costa Rica				
	B	¢	87,700,862,520	146,015,128,160
State-owned bank				
	BB		-	3,892,580,138
	F1+		3,611,940,000	6,452,604
Foreign private banks				
	A		15,947,430,505	21,494,048,490
	A2		-	25,810,000,000
	A-		18,835,855,917	26,633,228,353
	A+		8,751,341,536	8,552,199,056
	AA-		5,418,432,479	3,172,870,384
	AAA		9,335,987,584	7,857,349,721
	BBB		3,087,954,594	1,889,063,769
	BBB-		4,405,018,542	-
	BBB+		8,260,688,298	14,986,288,364
	F3		7,705,472,000	4,516,750,000
	P1		2,925,289,004	-
Foreign private issuers				
	A		5,394,774,104	8,340,533,485
	A-		11,795,522,072	19,626,722,594
	A+		12,829,085,529	18,888,536,146
	AA		2,811,732,843	3,008,934,407
	AA-		1,778,668,182	2,410,303,365
	AAA		1,198,953,167	1,464,984,111
	BB		-	197,200,498
	BB+		175,932,618	-
	BBB		26,751,790,905	39,860,141,371
	BBB-		7,641,206,269	20,317,446,465
	BBB+		16,130,016,034	22,279,489,505
Local private issuers				
	B+		6,789,358,293	6,796,019,313
	BB		13,544,186,077	28,670,200,160
Government of Costa Rica				
	B		712,382,682,260	770,035,113,151
	B2		11,159,049,529	
	B+		-	11,855,766,331
Foreign governments				
	A		725,667,852	334,419,594
	A+		-	11,256,374,590
	AA+		399,568,790,781	340,418,730,631
	P1		23,688,409,085	-
Unrated				
	N/A		20,439,613,494	187,829,119,501
		¢	1,450,791,712,073	1,764,862,357,257

(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 the international debt issue made in October 2013 in US dollars at a fixed rate. The purpose of these financial instruments is to offset the changes in fair value attributable to fluctuations in such reference rate.

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

		2022			
Issuing bank		Notional amount		Valuation	Purpose
JP Morgan	US$	45,833,000	US$	(1,099,733)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000		(3,086,417)	
	US$	174,464,000	US$	(4,186,150)	
Amount in colones	¢	105,025,583,360	¢	(2,520,020,439)	
Chicago Board of Trade	US$	8,900,000	US$	(5,141)	Standardized futures contracts (maturing in 2023)
Amount in colones	¢	5,357,711,000	¢	(3,094,830)	

		2021			
Issuing bank		Notional amount		Valuation	Purpose
CitiBank	US$	100,000,000	US$	3,739,241	Swaps to hedge 10-year issues (maturing in 2022)
JP Morgan		46,533,000		1,739,981	
Bank of America		173,588,000		6,490,874	
	US$	320,121,000	US$	11,970,096	
Amount in colones	¢	206,558,075,250	¢	7,723,704,438	
Chicago Board of Trade	US$	15,300,000	US$	(21,984)	Standardized futures contracts (maturing in 2022)
Amount in colones	¢	9,872,325,000	¢	(14,185,350)	

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

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

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

	2022	2021
10-year issue (maturing in 2023)	23.67%	109.11%

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

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

- a 10-year or 5-year LIBOR rate at the issue of the bond
- discount rates from Bloomberg
- zero rates corresponding to the swap curve as of December 31, 2022 and 2021
- only a portion of the bond cash flows is hedged (corresponding to the 5-year and 10-year LIBOR rate in effect at the issue of the bond) rather than the total interest rate
- accrued and earned interest were segregated from the instruments to obtain variations in clean prices
- forward rate to calculate variable interest
- the linear regression methodology is taken into account to measure the effectiveness of the derivative financial instrument.

As of December 31, standardized futures contracts were negotiated as part of the management of the financial derivatives portfolio as follows:

	2022	
	US dollars	Colones
Notional amount	8,900,000	5,357,711,000
Valuation		
Positive valuation	6,953	4,185,637
Negative valuation	(12,094)	(7,280,467)
Net valuation	(5,141)	(3,094,830)

(Continued)

	2021	
	US dollars	Colones
Notional amount	15,300,000	9,872,325,000
Valuation		
Negative valuation	(21,984)	(14,185,176)
Net valuation	(21,984)	(14,185,176)

As of December 31, the total notional amount (swaps and standardized futures contracts) and its valuation is as follows:

	2022	2021
Total notional amount	¢ 110,383,294,360	216,430,400,250
Positive valuation		
Swaps	-	7,723,704,438
Standardized futures contracts	4,185,715	-
	4,185,715	7,723,704,438
Negative valuation		
Swaps	(2,520,020,583)	-
Standardized futures contracts	(7,280,317)	(14,185,350)
	(2,527,300,900)	(14,185,350)
Net valuation	¢ (2,523,115,185)	7,709,519,088

✓ *Derivatives other than hedges*

Currency forwards:

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

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

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

As of December 31, 2022, the total notional amounts of forwards contracts are as follows:

		US dollars	Colones
Total notional amount		250,000	150,497,500
Valuation			
Positive valuation	¢	-	12,227,870
Net valuation	¢	-	12,227,870

As of December 31, 2021, there were no notional amounts or forwards contracts.

The total notional amount (swaps, standardized futures contracts and forwards contracts) and its valuation as of December 31, is as follows:

		2022	2021
Total notional amount	¢	110,533,791,860	216,430,400,250
Positive valuation			
Swaps		-	7,723,704,438
Standardized futures contracts		4,185,715	-
Forwards contracts		12,227,870	-
		16,413,585	7,723,704,438
Negative valuation			
Swaps		(2,520,020,583)	-
Standardized futures contracts		(7,280,317)	(14,185,350)
Negative valuation		(2,527,300,900)	(14,185,350)
Net valuation	¢	(2,510,887,315)	7,709,519,088

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

		2022	2021
Gains on derivative financial instruments	¢	5,985,148,376	7,266,821,001
Losses on derivative financial instruments		(12,979,298,545)	(9,275,414,200)
(Net losses)	¢	(6,994,150,169)	(2,008,593,199)

(12) Loan portfolio

(a) Loan portfolio by sector

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

		2022	2021
Trade	¢	342,969,138,183	330,171,594,062
Services *(1)*		1,095,059,447,030	1,043,436,571,257
Financial services *(1)*		109,720,870,239	91,266,302,711
Mining		398,427,532	455,324,660
Manufacturing and quarrying		178,994,270,719	158,415,565,843
Construction		61,758,622,977	93,491,037,959
Agriculture and forestry		103,712,943,915	116,562,814,807
Livestock, hunting and fishing		73,772,137,199	72,831,830,903
Electricity, water, sanitation and other related sectors		418,966,686,202	465,323,785,148
Transportation and telecommunications		40,346,931,588	43,598,161,061
Housing		1,444,538,734,270	1,347,158,225,840
Personal or consumer loans		566,079,512,647	503,511,429,681
Tourism		269,338,328,270	268,107,946,733
Total direct loans		4,705,656,050,771	4,534,330,590,665
Incremental direct costs related to loans		5,755,898,412	3,675,079,715
(Deferred income from loan portfolio)		(41,927,136,381)	(35,117,407,652)
Accrued interest receivable		102,173,613,358	110,377,468,668
Allowance for loan losses		(139,365,727,145)	(135,831,283,295)
Loan portfolio	¢	4,632,292,699,015	4,477,434,448,101

(Continued)

(1) As of December 31, 2022, the portfolio purchased by the Bank amounts to ¢108,139,194,106 (2021: ¢132,082,320,757), distributed among the services and financial services sectors.

As of December 31, annual interest rates on loans receivable are as follows:

	2022		2021	
Currency	Rates	Average *(1)*	Rates	Average *(1)*
Colones	0.55% to 45.00%	20.08%	0.55% to 45.00%	12.09%
US dollars	1.45% to 28.00%	5.11%	0.35% to 29.00%	7.55%
DU	3.85% to 10%	4.26%	3.85% to 10.00%	5.86%

(1) Simple average of the minimum and maximum values of the portfolio as of December 31, 2022 and 2021.

(b) Loan portfolio by arrears

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

		2022	2021
Current	¢	4,422,303,618,346	4,282,530,208,271
1 to 30 days		63,091,714,270	53,971,542,316
31 to 60 days		68,068,728,025	53,341,812,649
61 to 90 days		28,917,000,212	20,491,714,014
91 to 120 days		7,245,310,645	10,017,004,923
121 to 180 days		22,972,652,418	11,376,887,610
More than 180 days		93,057,026,855	102,601,420,882
		4,705,656,050,771	4,534,330,590,665
Incremental direct costs related to loans		5,755,898,412	3,675,079,715
(Deferred income from loan portfolio)		(41,927,136,381)	(35,117,407,652)
Accrued interest receivable		102,173,613,358	110,377,468,668
Allowance for loan losses		(139,365,727,145)	(135,831,283,295)
	¢	4,632,292,699,015	4,477,434,448,101

(c) *Allowance for loan losses*

As of December 31, movement in the allowance for loan losses is as follows:

		2022	2021
Opening balance	¢	135,831,283,295	155,527,961,609
Allowance expense for the year (Note 39)		46,950,617,208	78,587,703,720
Write-offs		(40,301,050,935)	(100,201,837,988)
Decrease in allowance		(81,428)	-
Foreign exchange differences		(3,115,040,995)	1,917,455,954
Closing balance	¢	139,365,727,145	135,831,283,295

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

(d) *Allowance for impairment of stand-by credits*

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

		2022	2021
Opening balance	¢	862,169,136	717,444,504
Allowance expense for the year (Note 39)		384,000,000	120,000,001
Foreign exchange differences		(59,425,721)	24,724,631
Closing balance	¢	1,186,743,415	862,169,136

(13) Accounts and fees and commissions receivable

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

		2022	2021
Fees and commissions	¢	1,783,560,799	1,956,296,857
Accounts due from employees		31,661,571	16,309,408
Deferred tax		268,669,833	-
Income tax receivable *(1)*		145,598,420	141,393,662
Value added tax		23,656,842	19,035,938
Sundry accounts receivable related to credit cards		463,439,223	339,109,267
Other expenses receivable		22,769,687	23,082,305
Credit fraud		742,752,108	742,752,108
Other accounts receivable		1,886,703,251	1,553,072,175
Misappropriation and theft		1,464,986,868	1,523,981,966
Accrued interest receivable on other sundry accounts receivable		725,933	1,923,295
Allowance for impairment of accounts receivable		(4,329,683,075)	(4,073,541,858)
	¢	2,504,841,460	2,243,415,123

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

		2022	2021
Banco Nacional de Costa Rica	¢	145,577,899	141,325,587
BN Vital Operadora de Planes de Pensiones Complementarias. S.A.		20,521	68,075
	¢	145,598,420	141,393,662

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

		2022	2021
Opening balance	¢	4,073,541,858	4,217,937,702
Allowance expense (Note 39)		2,064,918,116	879,441,298
Decrease in allowance (Note 40)		(786,561,237)	(521,599,531)
Write-offs		(977,168,662)	(516,463,912)
Foreign exchange differences		(45,047,000)	14,226,301
Closing balance	¢	4,329,683,075	4,073,541,858

(14) Assets held for sale

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

		2022	2021
Assets acquired in lieu of payment	¢	98,126,485,936	94,628,393,958
Idle property, furniture and equipment		55,884,628	55,884,629
Allowance for impairment of assets held for sale and per legal requirements		(60,686,913,169)	(58,895,478,390)
	¢	37,495,457,395	35,788,800,197

As of December 31, movement in the allowance for impairment of assets held for sale and per legal requirements is as follows:

		2022	2021
Opening balance	¢	58,895,478,390	66,534,513,087
Allowance expense (Note 43)		7,860,283,102	1,732,758,628
Decrease in allowance		(6,068,848,323)	(9,371,793,325)
Closing balance	¢	60,686,913,169	58,895,478,390

(15) Investments in other companies

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

		2022	2021
Investment in other financial and non-financial entities *(1)*	¢	50,623,291	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) *(2)*		73,316,076,284	76,762,142,766
	¢	73,366,699,575	76,812,766,066

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

		2022	2021	Concept
Bolsa Nacional de Valores	¢	15,000,000	15,000,000	To operate in the electronic custody of securities
Central de Valores de la Bolsa Nacional de Valores, S.A.		15,000,000	15,000,000	To operate in the electronic custody of securities
Interclear Central de Valores		15,000,000	15,000,000	To operate in the electronic custody of securities
Depósito Libre Comercial Golfito Art 24 Ley 7131		5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities (cooperatives)		423,291	423,300	Investments in various cooperatives
	¢	50,623,291	50,623,300	

(2) The Bank holds 49% ownership interest in BICSA, which for 2022 and 2021, is represented by 6,506,563 ordinary shares with a par value of US$10.

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

a) *Historical cost and depreciation*

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

		2022					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	72,438,846,477	72,850,036,545	52,323,902,444	405,181,156	202,299,116,299
Revalued cost at beginning of year		49,374,508,221	65,580,690,063	(10,298,846)	(34,287,877)	-	114,910,611,561
Additions		-	756,993,692	8,980,137,897	3,752,714,555	1,500,000	13,491,346,144
Revaluation		293,249,238	-	-	-	-	293,249,238
Disposals		-	-	(4,688,093,450)	(3,296,881,594)	-	(7,984,975,044)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Adjustments		-	-	2,680,000	2,208,964	-	4,888,964
Reclassifications		-	-	251,050	(251,050)	-	-
Closing balance		53,948,907,136	138,776,530,232	77,134,713,196	52,747,405,442	283,116,885	322,890,672,891
Accumulated depreciation:							
Opening balance		-	51,251,241,263	44,854,279,720	41,725,835,189	271,403,052	138,102,759,224
Depreciation expense on historical cost		-	1,611,532,572	7,400,891,710	4,147,494,467	16,314,159	13,176,232,908
Depreciation expense on revalued cost		-	970,847,416	-	-	-	970,847,416
Disposals		-	-	(4,583,170,754)	(3,232,787,250)	-	(7,815,958,004)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Reclassifications		-	-	251,052	(251,052)	-	-
Closing balance	¢	-	53,833,621,251	47,672,251,728	42,640,291,354	164,152,940	144,310,317,273
Net closing balance	¢	53,948,907,136	84,942,908,981	29,462,461,468	10,107,114,088	118,963,945	178,580,355,618

(Continued)

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Notes to the Consolidated Financial Statements

		2021					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	70,673,112,451	65,964,459,511	52,338,212,534	341,154,043	193,598,088,216
Revalued cost at beginning of year		49,374,508,221	65,580,690,063	(10,298,846)	(34,287,877)	-	114,910,611,561
Additions		-	1,765,734,026	8,851,496,957	3,410,652,640	64,027,113	14,091,910,736
Revaluation		-	-	(1,978,526,222)	(3,218,631,088)	-	(5,197,157,310)
Disposals		-	-	-	(193,561,935)	-	(193,561,935)
Adjustments		-	-	(163,408)	-	-	(163,408)
Reclassifications		-	-	12,769,707	(12,769,707)	-	-
Closing balance		53,655,657,898	138,019,536,540	72,839,737,699	52,289,614,567	405,181,156	317,209,727,860
Accumulated depreciation:							
Opening balance		-	48,747,685,316	39,861,872,242	40,281,237,135	252,905,265	129,143,699,958
Depreciation expense on historical cost		-	1,614,246,417	6,831,299,464	4,612,916,437	18,497,787	13,076,960,105
Depreciation expense on revalued cost		-	889,309,530	-	-	-	889,309,530
Disposals		-	-	(1,850,645,372)	(3,173,947,476)	-	(5,024,592,848)
Sales		-	-	-	(36,429,793)	-	(36,429,793)
Reclassifications		-	-	477,965	53,334,307	-	53,812,272
Closing balance		-	-	11,275,421	(11,275,421)	-	-
Net closing balance	¢	-	51,251,241,263	44,854,279,720	41,725,835,189	271,403,052	138,102,759,224
Adjustments	¢	53,655,657,898	86,768,295,277	27,985,457,979	10,563,779,378	133,778,104	179,106,968,636

(Continued)

As of December 31, 2022, 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 assets comprise the lease of building and vehicles, as follows:

		2022		
		Right-of-use of building	Right-of-use of vehicles	Total
Cost:				
Historical cost at beginning of period	¢	38,662,163,874	107,630,182	38,769,794,056
Additions		716,822,874	-	716,822,874
Revaluation of assets		(37,094,502)	-	(37,094,502)
Disposals		(965,626,670)	-	(965,626,670)
Adjustments		303,712,771	35,344,939	339,057,710
Closing balance		38,679,978,347	142,975,121	38,822,953,468
Accumulated depreciation:				
Opening balance		8,604,657,646	88,061,092	8,692,718,738
Depreciation expense on historical cost		2,854,742,741	31,350,741	2,886,093,482
Disposals		(458,900,345)	-	(458,900,345)
Adjustments		(84,868,622)	-	(84,868,622)
Closing balance		10,915,631,420	119,411,833	11,035,043,253
Net closing balance	¢	27,764,346,921	23,563,294	27,787,910,215

		2021		
		Right-of-use of building	Right-of-use of vehicles	Total
Cost:				
Historical cost at beginning of period	¢	39,546,388,715	277,254,296	39,823,643,011
Additions		184,964,460	-	184,964,460
Disposals		(506,189,721)	(160,028,888)	(666,218,609)
Adjustments		(562,999,580)	(9,595,226)	(572,594,806)
Closing balance		38,662,163,874	107,630,182	38,769,794,056
Accumulated depreciation:				
Opening balance		5,776,635,561	192,006,032	5,968,641,593
Depreciation expense on historical cost		2,898,066,477	58,198,550	2,956,265,027
Disposals		(58,829,132)	(160,028,892)	(218,858,024)
Adjustments		(11,215,260)	(2,114,598)	(13,329,858)
Closing balance		8,604,657,646	88,061,092	8,692,718,738
Net closing balance	¢	30,057,506,228	19,569,090	30,077,075,318

c) *Lease liabilities*

i. *Amounts recognized in profit or loss*

As of December 31, the amounts recognized in profit or loss are as follows:

		2022	2021
Interest on lease liability	¢	3,601,050,576	3,428,502,639
Expenses for leases of low-value assets, excluding short-term assets	¢	719,978,467	628,823,481

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

As of December 31, amounts recognized in the statement of cash flows are as follows:

		2022	2021
Cash outflows for leases	¢	(2,138,603,082)	(2,005,812,157)

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(17) Other assets

As of December 31, other assets are as follows:

		2022	2021
Deferred charges:			
Leasehold improvements	¢	4,925,965	9,757,224
Cost of issue of financial instruments, net *(1)*		102,345,247	233,534,136
Cost of subordinated debt project		28,212,520	97,783,459
Other deferred charges		14,195,002,205	28,387,122,273
		14,330,485,937	28,728,197,092
Intangible assets:			
Software *(2)*		8,968,845,348	9,163,553,845
Other intangible assets *(2)*		8,831,483	8,398,795
		8,977,676,831	9,171,952,640
Other assets:			
Prepaid taxes		11,144,829,712	5,614,855,037
Prepaid insurance policy		228,429,816	210,452,219
Other prepaid expenses		5,349,770,814	4,778,647,637
Stationery, office supplies and other materials		1,013,805,560	701,386,078
Leased assets		118,708,632	120,107,359
Library and artwork		404,704,948	404,704,948
Construction work in progress		214,941,893	1,380,986,124
Automated applications under development		143,126,460	170,702,974
Payments to welfare and trade associations		350,000	350,000
Other sundry assets		153,486,106	158,557,669
Operations pending settlement		11,988,708,377	6,036,577,570
Other operations pending application		113,620,383	80,847,419
Security deposits (Note 7)		320,427,052	823,104,907
Legal and administrative deposits (Note 7)		212,454,762	200,730,233
		31,407,364,515	20,682,010,174
	¢	54,715,527,283	58,582,159,906

As of December 31, 2022, the amortization expense for leasehold improvements amounts to ¢4,831,259 (2021: ¢77,644,222).

(1) As of December 31, the costs of issue of financial instruments are as follows:

		2022		
		5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	¢	300,995,000	300,995,000	601,990,000
Commission - Moody's Investors Service		150,497,500	150,497,500	300,995,000
Commission - Société de la Bourse de Luxembourg S.A.		7,356,921	7,356,921	14,713,841
RR Donnelley		6,589,985	6,589,960	13,179,945
BNY Mellon		2,379,667	2,379,666	4,759,333
Moody's issuer rating		19,925,869	19,925,869	39,851,738
Fitch Ratings		150,497,500	150,497,500	300,995,000
Milbank		88,588,848	88,588,849	177,177,697
Shearman & Sterling		88,703,828	88,703,828	177,407,656
External audit		114,378,100	114,378,101	228,756,201
		929,913,217	929,913,192	1,859,826,410
Amortization		(929,913,217)	(827,567,946)	(1,757,481,163)
	¢	-	102,345,246	102,345,247

(Continued)

		2021			
		5-year issue (maturing in 2018)	10-year issue (maturing in 2023)	5-year issue (maturing in 2021)	Total
Commission - structuring banks	¢	322,625,000	322,625,000	548,462,500	1,193,712,500
Commission - Moody's Investors Service		161,312,500	161,312,500	-	322,625,000
Commission - Société de la Bourse de Luxembourg S.A.		7,885,600	7,885,600	-	15,771,200
RR Donnelley		7,063,552	7,063,526	4,228,501	18,355,579
BNY Mellon		2,550,673	2,550,673	3,721,157	8,822,503
Moody's issuer rating		21,357,775	21,357,775	161,312,500	204,028,050
Fitch Ratings		161,312,500	161,312,500	161,312,500	483,937,500
Milbank		94,954,990	94,954,990	127,127,549	317,037,529
Shearman & Sterling		95,078,233	95,078,233	141,434,993	331,591,459
External audit		122,597,500	122,597,500	149,698,000	394,893,000
Perkins Cole (Broker)		-	-	8,463,777	8,463,777
Printing of documents		-	-	10,204,603	10,204,603
		996,738,323	996,738,297	1,315,966,080	3,309,442,700
Amortization		(996,738,323)	(763,204,158)	(1,315,966,080)	(3,075,908,563)
	¢	-	233,534,139	-	233,534,139

(Continued)

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

		2022		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	35,209,164,296	50,494,355	35,259,658,651
Additions		5,534,205,217	35,832,956	5,570,038,173
Disposals		(796,116,331)	(42,095,559)	(838,211,890)
Adjustments		(46,475,393)	(35,400,268)	(81,875,661)
Closing balance		39,900,777,789	8,831,483	39,909,609,273
Accumulated amortization:				
Opening balance		26,045,610,452	42,095,559	26,087,706,011
Expense for the year		5,603,292,401	35,325,934	5,638,618,335
Disposals		(667,390,964)	(42,095,559)	(709,486,523)
Reclassifications		(49,579,447)	(35,325,935)	(84,905,382)
Adjustments		30,931,932,442	-	30,931,932,442
Closing balance	¢	8,968,845,348	8,831,483	8,977,676,831

		2021		
		Software	Other intangible assets	Total
Cost:				
Opening balance	¢	34,140,956,405	46,969,683	34,187,926,088
Additions		8,537,149,482	29,723,089	8,566,872,571
Disposals		(7,352,458,311)	-	(7,352,458,311)
Reclassifications		-	(26,198,417)	(26,198,417)
Adjustments		(116,483,280)	-	(116,483,280)
Closing balance		35,209,164,296	50,494,355	35,259,658,651
Accumulated amortization:				
Opening balance		28,845,429,057	42,095,559	28,887,524,616
Expense for the year		4,474,766,686	34,597,216	4,509,363,902
Disposals		(7,201,216,192)	-	(7,201,216,192)
Reclassifications		(72,685,752)	(34,597,216)	(107,282,968)
Adjustments		(683,347)	-	(683,347)
Closing balance		26,045,610,452	42,095,559	26,087,706,011
Net closing balance	¢	9,163,553,844	8,398,796	9,171,952,640

(Continued)

(18) Obligations with the public

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

		2022	2021
Demand deposits:			
Checking accounts	¢	2,043,303,492,671	2,280,685,115,875
Certified checks		82,905,436	81,126,362
Savings deposits		2,235,282,084,991	2,049,250,666,697
Matured term deposits		19,669,968,927	23,072,595,759
Other demand deposits		106,460,320	122,843,952
Drafts and transfers payable		40,420,863	194,665,191
Cashier's checks		4,531,280,930	4,616,672,412
Advance collections from customers for credit cards		11,663,506,960	11,196,281,538
Trust fund obligations		37,235,289	38,184,399
		4,314,717,356,387	4,369,258,152,185
Term deposits:			
Deposits from the public		1,693,242,933,309	1,635,557,973,096
Other term deposits		97,423,859,878	65,562,075,052
		1,790,666,793,187	1,701,120,048,148
Other obligations with the public:			
Finance charges payable		36,671,811,687	27,369,847,440
	¢	6,142,055,961,261	6,097,748,047,773

As of December 31, 2022, deposits in checking accounts in colones bear interest at a maximum rate of 3.05% per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to ¢500,001 (2021: interest at 1.15% and 0.00% per annum, respectively). Deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to US$1,000 (2021: interest at 0.20% and 0.00% per annum, respectively).

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

Currency	2022	2021
Colones	4.30% to 9.54%	0.77% to 5.95%
US dollars	0.10% to 3.80%	0.10% to 3.80%

(Continued)

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2022, the balance of those term certificates of deposit is ¢82,625,362,702 (2021: ¢80,694,825,700). 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:

		2022	2021
Financing of loans using internal funds - BCCR *(i)*	¢	164,570,763,666	167,166,427,708
Financing of loans using external funds *(ii)*		125,644,412	125,644,412
Finance charges payable		2,265,548,263	951,173,419
	¢	166,961,956,341	168,243,245,539

i. Corresponds to the partial redemption of deferred term obligations (ODP).

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

(20) Obligations with financial entities

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

		2022	2021
Demand:			
Checking accounts with local financial entities	¢	43,916,537,730	112,128,062,548
Savings deposits with local financial entities		34,658,874	46,270,767
Outstanding checks		1,208,142,711	1,278,976,636
Matured term deposits		61,018,729	2,830,075
Checking accounts and obligations with related parties (Note 8)		44,277,901	107,286,096
		45,264,635,945	113,563,426,122
Term:			
Term deposits with local financial entities		87,641,877,298	82,937,788,340
Term obligations with foreign financial entities *(2)*		103,761,660,525	212,580,207,605
Obligations for funds from the liquidity market		36,675,790,002	19,900,525,001
Loans from foreign financial entities *(3) (4)*		111,571,141,028	119,806,406,600
Lease liabilities *(1)*		32,276,066,066	35,470,104,910
Obligations for deferred liquidity operations		33,000,000,000	-
Obligations with funds from the Development Credit Fund		180,863,648,754	186,762,911,685
Loans from local financial entities *(3)(4)*		31,181,086,370	34,352,702,356
		616,971,270,043	691,810,646,497
(Deferred fees and commissions on own loan portfolio)		(103,269,735)	(51,811,794)
		(103,269,735)	(51,811,794)
Charges payable for other demand and term obligations with financial entities – foreign currency		77,816,225	46,267,755
Charges payable for other demand and term obligations with financial entities – local currency		1,025,796,679	421,507,265
Charges payable for loans with foreign financial entities *(3)*		509,773,987	517,859,705
Charges payable for loans with local financial entities *(3)*		81,717,408	42,198,364
Charges payable for term deposits with foreign financial entities *(2)*		1,094,016,546	2,151,646,656
		2,789,120,845	3,179,479,745
	¢	664,921,757,098	808,501,740,570

(Continued)

(1) Lease liabilities

As of December 31, 2022, long-term lease liabilities and their current portion amount to ¢7,148,807,318 and USD$40,175,051, for a total in colones of ¢32,276,066,066, using an exchange rate of ¢601.99 (2021: ¢6,112,557,693 and US$45,497,942, for a total in colones of ¢35,470,104,910, using an exchange rate of ¢645.25).

As of December 31, lease operations are as follows:

	2022			2021		
	No. of operations	Interest rates	Maturity	No. of operations	Interest rates	Maturity
In colones	19	5.56% and 15% per annum	2023 and 2047	17	5.56% and 15% per annum	2022 and 2042
In US dollars	54	3.57% and 8.85% per annum	2023 and 2041	59	3.57% and 8.85% per annum	2022 and 2041
	73			76		

As of December 31, future minimum lease payments are as follows:

		2022		
		Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢	4,967,302,158	3,018,555,273	1,948,708,321
Between one and five years		23,392,311,008	12,036,139,889	11,356,182,316
More than five years		27,343,684,985	8,372,536,923	18,971,175,428
	¢	55,703,257,568	23,427,232,085	32,276,066,066

		2021		
		Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢	5,428,099,149	3,331,645,084	2,096,458,402
Between one and five years		24,938,808,081	13,407,018,018	11,531,790,063
More than five years		31,295,162,764	9,453,301,983	21,841,860,781
	¢	61,662,069,994	26,191,965,084	35,470,104,910

(Continued)

As of December 31, the reconciliation of the lease liabilities with cash flows from financing activities is as follows:

		2022	2021
Opening balance	¢	35,470,104,910	37,044,902,529
New financial obligations		716,822,874	187,604,732
Settlements or withdrawals		(662,645,977)	(467,870,645)
Adjustments		576,526,206	(556,573,858)
Payment of obligations		(2,138,603,083)	(2,005,812,157)
Foreign exchange differences		(1,686,138,864)	1,267,854,309
Closing balance	¢	32,276,066,066	35,470,104,910

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

Date of issue	Face value (in millions)	Characteristics
10/19/2007	US$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
09/04/2007	US$20	Traded amount: 100% Term: 16 years Interest rate: 6.20 per coupon
05/07/2007	US$10	Traded amount: 100% Term: 17 years Interest rate: 6.20 per coupon
12/03/2007	US$75	Traded amount: 100% Term: 22 years Interest rate: 6.65 per coupon
11/24/2020	US$10	Traded amount: 100% Term: 3 years Interest rate:4.66 per coupon
01/05/2021	US$40	Traded amount: 100% Term: 3 years Interest rate: 4.66 per coupon
07/21/2016	US$8.1	Traded amount: 100% Term: 7 years Interest rate: 3.32 per coupon
04/27/2016	US$1.6	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
04/27/2016	US$15.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon
11/01/2013	US$500	Traded amount: 99.07% Term: 10 years Interest rate: 6.25% per coupon
11/30/2015	US$2.8	Traded amount: 100% Term: 8 years Interest rate: 3.32 per coupon

05/13/2015	US$5.4	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
02/09/2015	US$2.8	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
01/30/2015	US$3.1	Traded amount: 100% Term: 9 years Interest rate: 3.32 per coupon
12/14/2022	US$5.0	Traded amount: 100% Term: 8 years Interest rate: 9.92 per coupon

Obligations with international issuers

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

		2022	
		10-year issue (maturing in 2023)	Total
Issue	¢	104,050,945,946	104,050,945,946
Adjustment to fair value of hedged item measured at cost of international issues		(1,145,892,786)	(1,145,892,786)
Amortization of discount in traded amount of issues		856,607,365	856,607,365
		103,761,660,525	103,761,660,525
Finance charges payable		1,094,016,546	1,094,016,546
	¢	104,855,677,071	104,855,677,071

		2021	
		10-year issue (maturing in 2023)	Total
Issue	¢	204,641,216,311	204,641,216,311
Adjustment to fair value of hedged item measured at cost of international issues		6,491,805,120	6,491,805,120
Amortization of discount in traded amount of issues		1,447,186,174	1,447,186,174
		212,580,207,605	212,580,207,605
Finance charges payable		2,151,646,656	2,151,646,656
	¢	214,731,854,261	214,731,854,261

(Continued)

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

		2022		
		Local	Foreign	Total
Less than one year	¢	-	105,857,727,682	105,857,727,682
One to two years		81,717,408	3,213,237,333	3,294,954,741
Three to five years		3,178,742,647	-	3,178,742,647
More than five years		28,002,343,723	3,009,950,000	31,012,293,723
	¢	31,262,803,778	112,080,915,015	143,343,718,793

		2021		
		Local	Foreign	Total
One to two years	¢	42,198,364	71,930,516,305	71,972,714,669
Three to five years		2,815,619,439	-	2,815,619,439
More than five years		31,537,082,917	48,393,750,000	79,930,832,917
	¢	34,394,900,720	120,324,266,305	154,719,167,025

(4) As of December 31, 2022, loans due to financial entities abroad bear interest at rates ranging from 3.32% to 9.92% per annum (2021: ranging from 2.84% 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, is as follows:

		2022	2021
Balance at beginning of year	¢	154,159,108,956	144,435,457,141
New financial obligations		3,014,300,000	32,192,000,006
Settlement of financial obligations		(6,621,048,346)	(27,887,555,495)
Foreign exchange differences		(7,800,133,212)	5,419,207,304
Cash flows from financing activities		(11,406,881,558)	5,431,560,505
Balance at end of year	¢	142,752,227,398	154,159,108,956

(Continued)

(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:

		2022	2021
Current tax:			
Current tax expense for the year		29,148,260,936	19,578,361,824
Prior-year income tax expense		14,189,237,931	14,189,237,931
		43,337,498,867	33,767,599,755
Deferred tax:			
Deferred tax expense		1,748,211,294	1,607,370,994
Deferred tax income		(1,733,569,705)	(1,361,385,393)
Deferred tax, net		14,641,589	245,985,601
Income tax expense, net	¢	43,352,140,456	34,013,585,356

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:

		2022		2021	
Income before income tax	¢	104,126,640,441		68,146,492,062	
Plus (less) tax effect of:					
Non-deductible expenses		46,981,406,159	48%	29,605,903,585	43%
Deductible expenses		(12,551,739,799)	13%	(10,697,399,468)	16%
Non-taxable income		(41,610,087,774)	43%	(22,063,051,821)	32%
Taxable income		214,650,759	0%	269,261,722	0%
Tax base		97,160,869,786		65,261,206,080	
Tax rate		30%		30%	
Income tax expense		29,148,260,936	30%	19,578,361,824	30%
Prior-year income tax expense		14,189,237,931	15%	14,189,237,931	22%
Deferred tax expense		1,748,211,294	2%	1,607,370,994	2%
Deferred tax income		(1,733,569,705)	2%	(1,361,385,393)	2%
Deferred tax expense, net		14,641,589	0%	245,985,601	0%
Income tax expense, net	¢	43,352,140,456	45%	34,013,585,356	52%

(Continued)

b) *Deferred tax*

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

		2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	6,146,691,623	-	6,146,691,623
Provisions		(129,118,480)	-	(129,118,480)
Right-of-use assets		1,343,940,056	-	1,343,940,056
Impairment of investments		12,686,297	-	12,686,297
Depreciation of assets		12,376,426	-	12,376,426
Lease liabilities		-	(1,221,832)	(1,221,832)
Unrealized gains on valuation of investments		-	(656,510,182)	(656,510,182)
Revaluation of property		-	(9,353,898,985)	(9,353,898,985)
Tax base of property and equipment		-	(4,470,955,506)	(4,470,955,506)
	¢	7,386,575,922	(14,482,586,505)	(7,096,010,583)

		2021		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	1,134,371,534	-	1,134,371,534
Provisions		(178,169,147)	-	(178,169,147)
Right-of-use assets		1,619,240,561	-	1,619,240,561
Impairment of investments		12,686,297	-	12,686,297
Depreciation of assets		12,376,426	-	12,376,426
Lease liabilities		-	(1,221,832)	(1,221,832)
Unrealized gains on valuation of investments		-	(3,712,707,527)	(3,712,707,527)
Revaluation of property		-	(8,848,593,314)	(8,848,593,314)
Tax base of property and equipment		-	(4,826,962,805)	(4,826,962,804)
	¢	2,600,505,671	(17,389,485,478)	(14,788,979,806)

(Continued)

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

		December 2021	Included in the income statement	Included in equity	December 2022
Unrealized losses on valuation of investments	¢	1,107,598,481	-	5,039,093,142	6,146,691,623
Provisions		(151,396,094)	22,277,614	-	(129,118,480)
Right-of-use assets		1,619,240,561	(275,300,505)	-	1,343,940,056
Impairment of investments		12,686,297	-	-	12,686,297
Depreciation of assets		12,376,426	-	-	12,376,426
Lease liabilities		(1,221,832)	-	-	(1,221,832)
Unrealized gains on valuation of investments		(3,712,707,527)	1,657,182	3,054,540,163	(656,510,182)
Revaluation of property		(8,848,593,314)	-	(505,305,671)	(9,353,898,985)
Tax base of property and equipment		(4,826,962,804)	266,007,298	90,000,000	(4,650,955,506)
	¢	(14,788,979,806)	14,641,589	7,797,284,593	(7,096,010,583)

		December 2020	Included in the income statement	Included in equity	December 2021
Unrealized losses on valuation of investments	¢	518,956,287	(84,763,319)	673,405,513	1,107,598,481
Provisions		200,148,114	(351,544,208)	-	(151,396,094)
Right-of-use assets		953,132,437	-	666,108,124	1,619,240,561
Impairment of investments		12,686,297	-	-	12,686,297
Depreciation of assets		12,376,426	-	-	12,376,426
Lease liabilities		(1,221,832)	-	-	(1,221,832)
Unrealized gains on valuation of investments		(2,904,593,685)	547,627,514	(1,355,741,360)	(3,712,707,527)
Revaluation of property		(9,136,423,689)	(12,030,296)	211,586,409	(8,848,593,314)
Tax base of property and equipment		(3,739,156,241)	(345,275,292)	(654,257,006)	(4,826,962,804)
	¢	(14,084,095,886)	(245,985,601)	(458,898,320)	(14,788,979,806)

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

As of December 31, 2022, the Bank has not recognized a deferred tax liability in the amount of ¢4,079,928,406 (2021: ¢3,226,273,002), given that it controls the moment when the subsidiaries pay dividends.

Tax returns filed by the Conglomerate for the years ended December 31, 2021, and the tax return that will be filed for the year ended December 31, 2022, are open to review by the Tax Authorities.

(22) Provisions

As of December 31, provisions are as follows:

		2022	2021
Severance benefits	¢	312,966,075	371,601,957
Litigation		3,980,700,568	8,034,225,228
Inactive checking and savings accounts liquidated		715,837,949	777,866,680
Manager commissions *(1)*		-	6,428,676,967
Variation in RIVM methodology		490,003,103	490,003,103
Notice of deficiency		4,714,347,682	4,714,347,682
Other		610,087,256	693,432,968
	¢	10,823,942,633	21,510,154,585

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

As of December 31, movement in provisions is as follows:

		2022			
		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2021	¢	371,601,957	8,034,225,228	13,104,327,400	21,510,154,585
Increase in provision		95,454,560	440,227,797	5,034,078,851	5,569,761,208
Used		(102,592)	(262,149,864)	(11,534,735,074)	(11,796,987,530)
Decrease in provision		(153,987,850)	(4,231,602,593)	(73,395,187)	(4,458,985,630)
Balance as of December 31, 2022	¢	312,966,075	3,980,700,568	6,530,275,990	10,823,942,633

		2021			
		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2020	¢	314,133,990	6,952,427,372	21,375,324,033	28,641,885,395
Increase in provision		132,108,604	1,374,172,666	5,092,180,705	6,598,461,975
Used		17,540,254	(283,107,925)	(13,310,198,017)	(13,575,765,688)
Decrease in provision		(92,180,891)	(9,266,885)	(52,979,321)	(154,427,097)
Balance as of December 31, 2021	¢	371,601,957	8,034,225,228	13,104,327,400	21,510,154,585

As of December 31, the Conglomerate is a defendant in pending lawsuits, for which the potential outflow of economic benefits is considered. As of that date, the Conglomerate has estimated future outflows and made the following provisions:

(Continued)

		Claimed amount		Provision	
Type		2022	2021	2022	2021
Ordinary - in colones		16,836,533,174	18,689,257,903	599,701,381	4,454,089,608
Ordinary - in US dollars		81,982,715,884	135,030,173,609	3,254,231,270	2,920,760,287
Criminal - in colones		1,020,877,223	1,020,877,223	-	-
Labor - in colones		866,092,477	955,498,846	126,767,917	659,375,333
	¢	100,706,218,758	155,695,807,581	3,980,700,568	8,034,225,228

(23) Other sundry accounts payable

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

		2022	2021
Professional fees	¢	2,124,000	8,845,876
Creditors - goods and services		6,444,687,376	5,677,747,171
Current tax		14,379,163,515	1,473,671,954
Value added tax		282,111,653	339,302,747
Employer contributions		12,608,559,069	10,271,862,174
Court-ordered withholdings		4,242,069,805	3,863,355,272
Tax withholdings		2,166,235,676	2,281,670,067
Employee withholdings		918,129,686	812,634,933
Other third-party withholdings		9,494,494	9,747,627
Compensation		21,254,809,763	16,341,390,269
Statutory allocations		30,595,829,657	18,169,451,427
Clearing house operations		106,576,220	339,051,671
Accrued vacation		5,796,450,453	5,159,944,007
Accrued statutory Christmas bonus		2,402,631,606	1,906,421,522
Contribution to the superintendencies' budget		-	6,111,241
Amounts received for partial sales of assets held for sale		81,392,010	142,060,903
Provisional deposits for the payment of premiums		1,724,766,840	2,106,711,540
Property		902,931,071	-
Direct contracts with the Government Purchases department – various		-	669,279,588
Accounts due to customers *(1)*		-	21,165,923
SICOP guarantees		1,257,167,862	1,598,166,821
Amounts received for partial sales of assets held for sale		809,316,748	525,977,790
Master Card and Visa payments		1,909,533,657	1,706,268,154
Allocation for petty cash differences		-	574,083,215
Other various creditors		2,925,095,219	2,976,461,289
Interest rate futures - Hedges (Note 11)		2,527,300,900	14,185,350
	¢	113,346,377,280	76,995,568,531

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

(24) Other liabilities

As of December 31, other liabilities are as follows:

		2022	2021
Deferred income:			
Deferred fees and commissions for trust management	¢	100,946,981	88,200,061
		100,946,981	88,200,061
Operations pending application:			
Operations pending settlement		14,112,053,303	16,748,386,396
Other operations pending settlement		16,283,878,923	10,135,704,410
		30,395,932,226	26,884,090,806
	¢	30,496,879,207	26,972,290,867

(25) Subordinated obligations

As of December 31, subordinated obligations are as follows:

Entity	Interest rate per annum	Term	Maturity		2022	2021
IBD	6-month LIBOR + 4.50% in the first 5 years and 6-month LIBOR + 5.00% thereafter	10	05/27/2024	US$	-	50,000,000
IDB	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	02/18/2032		45,000,000	-
CABEI	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	10/23/2029		21,000,000	24,000,000
AFD	Fixed rate at 8.28% over the entire term *(1)*	10	09/29/2031		15,000,000	15,000,000
FINDEV	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	02/18/2032		30,000,000	-
				US$	111,000,000	89,000,000
		Total equivalent in colones		¢	66.820.890.000	57.427.250.000
		Finance charges payable			2.087.280.318	940.121.894
				¢	68,908,170,318	58,367,371,894

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

(Continued)

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

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

(26) Equity

(a) Share capital

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

		2022	2021
Capital under Law No. 1644	¢	144,618,072,265	144,618,072,265
Bank capitalization bonds		27,618,957,837	27,618,957,837
	¢	172,237,030,102	172,237,030,102

(b) Capital reserves

As of December 31, capital reserves are as follows:

		2022	2021
Legal reserve	¢	366,238,968,825	343,173,824,949
Statutory reserve for assets held for sale		4,532,818,969	3,248,004,049
Excess of statutory reserve for loans		6,069,719,151	7,124,739,246
Statutory dynamic provision		10,323,772,636	11,190,669,854
	¢	387,165,279,581	364,737,238,098

(c) Equity of the Development Financing Fund

As of December 31, 2022, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢44,436,595,670 (2021: ¢41,687,504,022).

(27) Memoranda accounts

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. As of December 31, the notional amounts of foreign exchange derivatives are as follows:

		2022	2021
Performance bonds	¢	41,588,492,525	42,618,377,673
Bid bonds		3,621,690,761	2,180,865,597
Other guarantees		128,434,913	445,367,225
Letters of credit		3,778,668,632	4,124,817,367
Credits pending disbursement		118,433,348	124,833,348
		49,235,720,179	49,494,261,210
Pre-approved lines of credit		293,573,614,230	293,974,025,045
Other contingencies not related to credits		83,658,103	83,658,102
Other contingencies - Pending litigation and lawsuits (Note 51)		100,706,235,943	155,692,521,733
		394,363,508,276	449,750,204,881
Sale of FX futures - Other than hedges (Note 11)		150,497,500	-
	¢	443,749,725,955	499,244,466,091

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

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

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

(28) Trust assets

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

The types of trusts managed are as follows:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Nature of trust	Cash or property management	Securitization	Portfolio management	Guaranty	Testamentary	Custody of stock with testamentary clause	Custody of stock and cash management	Guaranties and cash management	Custody of stock	Management, custody and guaranty	Pre-sale management	Guaranty and custody of stock	Total
Trust assets													
Cash and due from banks	¢ 180,811,647	9,725,684	13,547,026	-	18,544	-	-	758,785	-	20,022,675,423	1,290,500	5,593	20,228,833,202
Investments in financial instruments	248,428,363,414	8,574,990,950	1,490,971,747	2,328,906,164,576	4,005,247,820	-	2,520,765	104,641,328	-	245,395,006	-	657,852	2,591,758,953,458
Loan portfolio	3,376,455,012	-	1,102,694,752	-	-	-	-	-	-	-	-	-	4,479,149,764
Accounts and accrued interest receivable	149,198,351,969	29,135,410,270	1,978,836,411	67,511,266	183,780	-	-	176,186,093	-	-	-	241,116	180,556,720,905
Assets held for sale	115,090,752	-	6,779,434	-	-	-	-	-	-	-	-	-	121,870,186
Investments in other companies	-	-	-	4,595,000,000	24,306,525	164,000	-	-	25,206,000	589,464,221	-	4,740,000	5,238,880,746
Property and equipment	752,822,519	27,113,866,007	-	122,026,030,187	662,837,677	-	-	8,719,375,327	-	-	-	3,004,248,009	162,279,179,726
Other assets	22,370,111,737	2,796,050,506	1,262	235,000,000	6,847,664	-	-	799,362	-	4,513,506,224	-	1,674,505,320	31,596,822,074
	¢ 424,422,007,050	67,630,043,417	4,592,830,632	2,455,829,706,029	4,699,442,010	164,000	2,520,765	9,001,760,895	25,206,000	25,371,040,874	1,290,500	4,684,397,890	2,996,260,410,061

(Continued)

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.

(29) Other debit memoranda accounts

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

		2022	2021
Pension Fund Manager's own investments in custody – Face value of principal	¢	11,909,502,397	11,256,590,000
Pension Fund Manager's own investments in custody – Coupons		8,258,756,860	4,837,091,300
Pension Fund Manager's own investments in custody – Number of shares		23	23
Guarantees received in the Bank's custody		1,537,758,245	943,997,162
Guarantees on financial instruments		8,673,472	-
Other guarantees received in the Bank's custody		8,251,549,284,419	7,425,266,129,616
Lines of credit granted but unused		385,726,062,498	397,631,709,645
Loans pending disbursement		160,078,072,925	147,964,508,341
Unused overdrafts		53,979,253	60,701,458
Loans settled		457,054,589,644	415,127,217,926
Other accounts receivable settled		24,011,040,515	20,675,349,825
Accrued interest receivable settled		41,915,053,706	38,305,871,616
Interest income on non-accrual loans of loan portfolio		37,366,216,301	35,790,789,103
Supporting documentation received in the Bank's custody		9,003,537	9,004,104
Securities issued pending placement		97,233,000,000	34,444,000,000
Lines of credit or overdrafts obtained but unused		6,019,899,998	6,452,500,001
Notified letters of credit		5,706,280,400	5,257,203,839
Notional value subject to interest rate futures (Note 11)		110,383,294,360	216,430,400,250
Reversals made to income accounts for the year		39,818,861,196	50,805,600,120
Reversals made to expense accounts for the year		191,552,930,770	89,622,428,300
Non-deductible expenses		40,867,557,589	23,231,315,038
Non-taxable income		45,834,899,311	28,031,902,872
Other memoranda accounts		222,845,085,807	229,090,096,899
		10,139,739,803,226	9,181,234,407,438
Third-party debit memoranda accounts *(1)*		4,722,010,921,517	4,897,730,289,330
Own debit memoranda accounts for custodial activities		527,864,839,532	672,053,399,643
Third-party debit memoranda accounts for custodial activities		16,084,024,046,419	16,326,243,606,935
		21,333,899,807,468	21,896,027,295,908
	¢	31,473,639,610,694	31,077,261,703,346

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

		2022	2021
Management of banking mandates	¢	1,811,845,820,166	1,742,711,823,628
"TUDES" securities received in custody from affiliates under Article 75 of Law No. 7531		833,199,135	617,389,318
Pension funds (Note 32)		2,218,384,850,204	2,283,096,382,911
Investment funds (Note 31)		608,484,320,423	772,762,830,934
Portfolio management		82,462,731,589	98,541,862,539
	¢	4,722,010,921,517	4,897,730,289,330

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

		2022	2021
Banco Nacional de Costa Rica	¢	27,484,970,600,693	26,924,093,940,397
BN Valores Puesto de Bolsa, S.A. (Note 30)		1,140,643,825,479	1,080,445,381,521
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)		608,549,474,735	772,807,168,583
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)		2,239,475,709,787	2,299,915,212,845
	¢	31,473,639,610,694	31,077,261,703,346

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

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

		2022	2021
Own			
Futures contracts pending settlement		36,962,540,908	19,922,658,293
Own trading securities (Note 30-a)		3,972,147,103	4,543,858,793
Other own memoranda accounts		6,054,317,610	6,484,248,455
		46,989,005,621	30,950,765,541
Third party			
Trading securities received as guarantees		49,041,958,783	42,697,285,222
Signed contracts pending settlement		4,302,906	-
Futures contracts pending settlement		79,075,858,327	93,572,152,796
Third-party trading securities (Note 30-a)		882,291,435,076	813,707,676,314
Cash and accounts receivable		778,533,186	975,639,109
Portfolio management		82,462,731,580	98,541,862,539
		1,093,654,819,858	1,049,494,615,980
Memoranda accounts (Note 29)	¢	1,140,643,825,479	1,080,445,381,521

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		2022	2021
Own custodial activities				
Local	CEVAL - Public		3,957,147,102	4,518,046,793
Local	Vault		15,000,001	25,812,000
			3,972,147,103	4,543,858,793
Custodial activities on behalf of third parties				
Local	CEVAL - private		146,511,305,136	125,354,746,394
Foreign	CEVAL - private		119,918,718,395	42,765,105,609
Local	CEVAL - public		557,325,800,651	603,913,323,634
Foreign	International custody		58,382,495,518	41,486,925,664
Local	Vault		8,024,829	8,024,829
Local - foreign	Securities that are doubtful, in arrears or in litigation		145,090,546	179,550,184
			882,291,435,076	813,707,676,314
		¢	886,263,582,179	818,251,535,107

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2022

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	24,259,739,896	21,101,349	12,702,801,085	36,983,642,330	-	-	-	-
Third parties	6,076,255,441	59,010,598	35,523,789,890	41,659,055,927	10,440,999,005	44,909,075	27,034,814,060	37,520,722,140
	30,335,995,337	80,111,947	48,226,590,975	78,642,698,257	10,440,999,005	44,909,075	27,034,814,060	37,520,722,140

2021

	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	14,691,214,333	8,107,623	5,231,443,960	19,922,658,292	-	-	-	-
Third parties	7,030,887,273	82,703,050	53,364,143,009	60,395,030,282	3,834,102,065	45,475,429	29,343,020,449	33,177,122,514
	21,722,101,606	90,810,673	58,595,586,969	80,317,688,574	3,834,102,065	45,475,429	29,343,020,449	33,177,122,514

As of December 31, 2022, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢601.99 to US$1.00 (2021: ¢645.25 to US$1.00).

(Continued)

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:

	2022			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ 2,151,893,199	2,007,423	-	-
31 to 60 days	22,107,846,697	19,093,926	-	-
	24,259,739,896	21,101,349	-	-
Third-party				
1 to 30 days	185,858,208	3,067,189	615,785,861	2,516,089
31 to 60 days	2,617,053,355	18,784,558	4,144,534,629	16,743,872
61 to 90 days	483,709,847	32,997,292	2,891,044,484	21,331,803
More than 91 days	2,789,634,031	4,161,559	2,789,634,031	4,317,310
	6,076,255,441	59,010,598	10,440,999,005	44,909,074
	¢ 30,335,995,337	80,111,947	10,440,999,005	44,909,074

	2021			
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
Own				
1 to 30 days	¢ 3,852,958,333	2,001,445	-	-
31 to 60 days	10,838,256,000	6,106,179	-	-
	14,691,214,333	8,107,624	-	-
Third-party				
1 to 30 days	200,256,438	726,503	200,256,438	926,717
31 to 60 days	3,345,275,971	4,990,524	825,216,687	4,712,084
61 to 90 days	2,255,254,698	73,831,858	1,180,928,776	36,682,462
More than 91 days	1,230,100,165	3,154,165	1,627,700,165	3,154,165
	7,030,887,272	82,703,050	3,834,102,066	45,475,428
	¢ 21,722,101,605	90,810,674	3,834,102,066	45,475,428

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.

(31) Investment fund management agreements

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

		2022		
Fund		Net value	Shares	Value per share
Funds in colones:				
Súper Fondo colones	¢	145,688,746,541	31,985,110,382	4.55
Fon Depósito colones		58,455,561,075	35,661,741,426	1.64
Creci Fondo colones		7,200,367,505	1,067,912,127	6.74
Redi Fondo colones		20,557,487,566	4,299,912,873	4.78
Diner Fondo colones		55,648,123,500	18,299,424,286	3.04
	¢	287,550,286,187	91,314,101,094	
Funds in US dollars:				
Creci Fondo US dollars		18,196,408	8,071,753	2.25
Redi Fondo US dollars		33,010,042	17,932,685	1.84
Diner Fondo US dollars		109,729,968	79,751,404	1.38
Fon Depósito US dollars		50,049,398	43,397,524	1.15
Súper Fondo Plus US dollars		258,807,536	225,370,381	1.15
Fondo Internacional - liquidity		33,388,446	21,750	1,535.10
BN internacional Valor		335,391	344,617	0.97
BN internacional Suma		3,528,587	3,691,934	0.96
BN internacional Crece		2,900,771	3,082,536	0.94
BN Infraestructura Pública -1		3,477,300	3,434,918	1.01
FI Desarrollo de Proyecto BN I		19,698,023	19,795	995.10
	US$	533,121,870	385,119,297	
	¢	320,934,034,236	231,837,965,601	
Assets of managed funds	¢	608,484,320,423	323,152,066,695	
Guarantees:				
Performance bonds		63,179,008		
Outstanding checks		1,975,304		
		65,154,312		
Memoranda accounts (Note 29)	¢	608,549,474,735		

		2021		
Fund		Net value	Shares	Value per share
Funds in colones:				
Súper Fondo colones	¢	155,840,578,411	34,978,944,271	4.45
Fon Depósito colones		65,876,006,462	40,971,564,113	1.61
Creci Fondo colones		18,097,863,673	2,690,093,423	6.72
Redi Fondo colones		58,406,812,071	12,380,554,666	4.70
Diner Fondo colones		89,060,189,790	29,889,525,599	2.98
	¢	387,281,450,407	120,910,682,072	
Funds in US dollars:				
Creci Fondo US dollars		24,919,805	11,122,701	0.00
Redi Fondo US dollars		57,218,500	31,325,053	2.21
Diner Fondo US dollars		168,031,240	123,135,967	1.81
Fon Depósito US dollars		62,616,598	54,447,099	1.36
Súper Fondo Plus US dollars		244,162,299	214,866,302	1.15
Fondo Internacional - liquidity		31,000,837	21,750	1,417.38
BN internacional Valor		323,143	325,732	1.00
BN internacional Suma		3,515,217	3,429,494	1.00
BN internacional Crece		2,580,115	2,452,183	1.01
BN Infraestructura Pública -1		3,046,241	3,043,150	1.00
	US$	597,413,995	444,169,431	
	¢	385,481,380,528	286,600,325,353	
Assets of managed funds	¢	772,762,830,935	407,511,007,425	
Guarantees:				
Performance bonds		42,362,347	-	
Outstanding checks		1,975,301	-	
		44,337,651	-	
Memoranda accounts (Note 29)	¢	772,807,168,583	-	

(Continued)

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

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

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

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

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

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

(Continued)

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

(Continued)

(32) Pension fund management agreements

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

		2022	2021
Mandatory Pension Fund (ROP)	¢	1,846,946,571,652	1,937,484,746,302
Mandatory Retirement Savings Account (FCL)		95,069,302,597	96,494,039,246
Employee Protection and Retirement Fund		98,490,441,114	-
Voluntary Pension Fund in Colones A (FPC A)		38,120,721,096	149,725,096,177
Voluntary Pension Fund in Colones B (FPC B)		95,983,473,819	44,590,216,879
Voluntary Pension Fund in US dollars A (FPD A) *(i)*		22,268,367,548	27,355,613,131
Voluntary Pension Fund in US dollars B (FPD B) *(ii)*		14,975,399,413	20,918,277,764
ICT employee pension fund		6,530,572,965	6,528,393,412
Assets of managed funds (Note 29)		2,218,384,850,204	2,283,096,382,911
Securities and assets in own custody		20,168,259,281	16,093,681,323
Bid and performance bonds – colones		28,581,781	26,556,671
Bid and performance bonds – US dollars (iii)		60,819,387	81,202,623
Securities in DU		833,199,134	617,389,317
Memoranda accounts (Note 29)	¢	2,239,475,709,787	2,299,915,212,845

i. As of December 31, 2022, this fund amounts to US$36,991,258 (2021: US$42,395,371) and is valued at the exchange rate of ¢601.99 to US$1.00 (2021: ¢645.25 to US$1.00).

ii. As of December 31, 2022, this fund amounts to US$24,876,492 (2021: US$32,418,873) and is valued at the exchange rate of ¢601.99 to US$1.00 (2021: ¢645.25 to US$1.00).

iii. As of December 31, 2022, this fund amounts to US$101,031 (2021: US$125,847) and is valued at the exchange rate of ¢601.99 to US$1.00 (2021: ¢645.25 to US$1.00).

(33) Income from financial instruments

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

		2022	2021
Cash and due from banks:			
Deposits in BCCR	¢	43,871,829	6,023,815
Checking accounts and demand deposits in local entities		54,307,237	27,004,116
Checking accounts and demand deposits in foreign entities		6,022,900,025	1,067,286,067
		6,121,079,091	1,100,313,998
Investments in financial instruments:			
Investments at fair value through profit or loss		234,791,674	217,776,887
Investments at fair value through other comprehensive income		28,519,651,974	35,592,327,310
Investments at amortized cost		24,563,101,054	23,185,767,774
Investments in past due and restricted securities		2,332,744,883	764,471,256
		55,650,289,585	59,760,343,227
	¢	61,771,368,676	60,860,657,225

(Continued)

(34) Income from loan portfolio

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

		2022	2021
Current loans:			
Individuals	¢	145,699,258,449	149,791,924,743
Development Banking System		4,359,211,078	4,843,040,529
Business		51,530,227,952	57,932,354,890
Corporate		75,330,953,759	70,821,776,726
Public sector		12,480,268,047	8,803,058,917
Financial sector		4,059,327,520	5,064,156,745
		293,459,246,805	297,256,312,550
Past due loans and loans in legal collection:			
Individuals		12,975,046,331	20,961,333,242
Development Banking System		232,506,512	513,035,200
Business		4,512,527,183	10,486,758,469
Corporate		3,625,660,292	2,453,937,947
Public sector		33,220,858	119,645,702
Financial sector		1,149,817	6,089,390
In legal collection		83,232,727,540	11,462,710,353
Amortization of net commission of incremental direct costs related to credits		1,030,101,252	1,438,839,208
		105,642,939,785	47,442,349,511
	¢	399,102,186,590	344,698,662,061

(35) Other finance income

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

		2022	2021
Fees and commissions on letters of credit	¢	13,562,712	15,905,629
Fees and commissions on guarantees granted		365,947,032	523,603,095
Gain on sale of financial instruments		193,437,178	784,462,202
Gain on fair value hedge for item measured at cost		10,205,104,892	7,154,899,859
Other sundry finance income		436,206,117	2,856,293,852
Charges for overdue operations		563,906,914	-
Sundry finance income from late fees		1,816,591,061	-
	¢	13,594,755,906	11,335,164,637

(36) Finance costs for obligations with the public

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

		2022	2021
Demand deposits	¢	60,597,602,942	38,617,890,380
Term deposits		70,066,392,356	80,121,029,699
Tri-party repurchase agreements and security agreements		-	15,293,926
	¢	130,663,995,298	118,754,214,005

(37) Finance costs for obligations with financial entities

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

		2022	2021
Demand obligations	¢	2,776,187,437	1,442,705,815
Term obligations		30,139,516,579	32,374,663,551
	¢	32,915,704,016	33,817,369,366

(38) Other finance costs

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

		2022	2021
Fees and commissions on letters of credit obtained	¢	268,672,780	220,860,731
Loss on financial instruments measured at amortized cost		59,890	-
Loss on hedged item measured at cost from fair value hedge on interest rate risk		7,137,284,851	943,588,321
Other sundry finance costs		953,090,495	612,932,263
	¢	8,359,108,016	1,777,381,315

(39) Expenses for allowance for impairment of assets

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

		2022	2021
Allowance for loan losses (Note 12)	¢	40,556,617,208	75,897,703,720
Allowance for impairment of other accounts receivable (Note 13)		2,064,918,115	879,441,298
Allowance for stand-by credit losses (Note 12)		360,000,000	-
General and counter-cyclical allowance for loan portfolio (Note 12)		6,010,000,000	2,570,000,000
General and counter-cyclical allowance for stand-by credit losses (Note 12)		24,000,000	120,000,001
Allowance for impairment of investments at fair value through other comprehensive income		621,562,330	3,202,500,934
Allowance for impairment of financial instruments at amortized cost		721,025,622	2,065,703,617
Allowance for impairment of operations with derivative financial instruments (Note 10)		171,363,625	31,218,445
Allowance for impairment of mature and restricted financial instruments		-	38,477
	¢	50,529,486,900	84,766,606,492

(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:

		2022	2021
Recovery of loan write-offs	¢	20,581,407,851	14,252,038,492
Recovery of accounts receivable write-offs		15,497,167	4,324,001
Decrease in allowance for loan losses (Note 12)		81,428	-
Decrease in allowance for impairment of other accounts receivable (Note 13)		786,561,237	521,599,531
Decrease in allowance for impairment of investments in financial instruments		2,267,202,066	2,455,564,895
	¢	23,650,749,749	17,233,526,919

(41) Income from service fees and commissions

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

		2022	2021
Drafts and transfers	¢	11,763,951,794	10,042,765,381
Certified checks		1,940,805	2,629,365
Trusts		2,301,774,868	1,937,243,390
Custodial services		2,331,446,564	2,013,802,908
Banking mandates		406,854	141,905
Collections		20,790,450	22,825,984
Credit cards		67,686,218,205	56,275,549,023
Management services		4,617,571,397	4,266,510,481
Management of investment funds		7,165,934,357	7,907,857,665
Management of pension funds		10,422,918,732	11,812,202,231
Insurance underwriting		9,102,822,271	8,077,667,532
Brokerage operations (third parties in local market)		1,966,034,720	4,418,485,622
Brokerage operations (third parties in other markets)		710,923,374	255,742,395
Transactions with related parties		79,098,434	60,020,476
Commissions charged to other affiliates due to covenants		13,694,279,476	12,934,350,762
Servibanca local interchange		25,785,221,078	22,502,063,318
Other service fees and commissions		11,923,097,853	9,912,720,965
	¢	169,574,431,232	152,442,579,403

(42) Other operating income

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

		2022	2021
Recovery of expenses *(1)*	¢	1,069,117,975	2,488,327,871
Net valuation of other assets (Note 6)		577,749,420	171,701,168
Other income from accounts receivable		1,316,032	1,371,484
Savings accounts liquidation		175,701,902	193,919,395
Administrative charges - PMEP		244,354,584	657,877,412
Liquidation of term certificate of deposit not claimed		536,783,254	678,739,121
Liquidation of checks		112,414,536	227,394,936
Withholdings from vendors		-	549,863,370
Fines applied to vendors		299,585,565	-
Excess cash from human teller		203,967,437	168,916,078
Commission due to markup of BN cards		783,743,903	261,230,949
Other operating income		1,233,620,386	1,002,838,996
Decrease in provisions *(2)*		4,458,985,631	154,427,098
	¢	9,697,340,625	6,556,607,878

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

(2) During April 2022, the Bank liquidated the provision related to the payment of SEDI, which was processed under file number 15-008666-1027-CA of the Administrative Court, given that the ruling was in favor of the Bank.

(43) Expenses for assets held for sale

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

		2022	2021
Property and other assets acquired in lieu of payment	¢	330,911,988	327,264,315
Loss on sale of assets awarded in judicial auctions		7,955,732,509	8,143,122,929
Management of assets received in lieu of payment		38,276,720	29,279,999
Management of assets awarded in judicial auctions		4,712,897,038	4,027,670,126
Property and other assets acquired in lieu of payment (Note 14)		56,476,407	-
Loss on allowance for impairment of assets held for sale and per legal requirement (Note 14)		7,803,806,695	1,732,758,628
Other expenses for assets held for sale		9,168,740	26,988,657
	¢	20,907,270,097	14,287,084,654

(44) Provision expenses

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

		2022	2021
Severance benefits	¢	95,454,560	132,108,604
Pending litigation		440,227,797	1,374,172,667
"BN Premios" points program		3,544,296,910	2,529,679,209
Case of the manager commissions with CCSS		85,260,821	912,158,736
Notice of deficiency		-	977,802,317
Deposit Guarantee Fund		1,424,528,336	-
Other provisions		3,200,549	672,540,443
	¢	5,592,968,973	6,598,461,976

(45) Other operating expenses

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

		2022	2021
Penalties for noncompliance with regulatory legal provisions	¢	1,057,536	1,718,644
Net valuation of other liabilities (Note 6-d)		282,117,584	286,917,462
Value-added tax expense		1,266,084,424	1,143,092,502
Income tax on foreign remittances		7,725,498	7,568,413
8% and 15% tax on income from interest on investments in financial instruments		517,863,816	219,657,408
Property tax		258,566,903	254,437,366
Patents		564,604,530	757,446,412
Other local taxes		41,642,333	85,386,614
Other foreign taxes		24,928	22,245
Transfer to FINADE		1,804,040,113	2,038,914,810
Amortization of deferred direct costs related to loans		4,415,489,245	3,368,466,623
Costs of microfinance insurance policies		1,022,216,988	-
Customer remittances		441,362,450	366,014,397
Authorization abroad		2,977,680,172	2,186,169,100
Base I and II fund disbursements		22,525,225,609	17,304,771,980
Life insurance unpaid balance		10,810,207,325	8,648,777,832
Software maintenance and licenses		12,778,582,266	11,839,032,850
Sundry operating expenses		6,870,534,414	6,496,438,105
Other expenses for sundry assets		843,597,538	159,463
	¢	67,428,623,672	55,004,992,226

(46) Personnel expenses

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

		2022	2021
Salaries and bonuses, permanent staff	¢	75,469,542,314	70,388,432,508
Salaries and bonuses, contractors		1,044,968,472	772,090,531
Compensation for directors and statutory examiners		167,272,774	239,065,908
Overtime		563,492,018	476,545,732
Travel expenses		299,718,314	190,696,863
Statutory Christmas bonus		8,400,119,447	7,809,512,039
Vacation		6,411,140,843	6,070,237,256
Incentives		4,700,873,752	5,684,512,924
Other compensation		6,632,373,330	5,607,620,021
Severance benefits		4,878,477,984	4,481,984,690
Employer social security taxes		33,023,843,364	30,918,936,658
Refreshments		63,887,839	44,124,124
Uniforms		383,121,992	410,083,138
Training		791,557,796	674,407,048
Employee insurance		265,680,532	246,890,985
Back-to-school bonus		7,276,382,894	6,585,757,985
Mandatory retirement savings account		1,623,230,382	1,518,264,241
Other personnel expenses		578,589,614	687,749,877
	¢	152,574,273,661	142,806,912,528

(47) Other administrative expenses

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

		2022	2021
Outsourcing	¢	30,572,122,037	25,643,724,045
Transportation and communications		3,995,838,095	3,411,029,651
Infrastructure		27,091,161,242	26,339,692,526
Overhead		21,391,622,597	19,023,210,389
	¢	83,050,743,971	74,417,656,611

(Continued)

(48) Statutory allocations

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

	2022	2021
CONAPE - 5%	₡ 4,874,761,010	2,991,108,826
CNE - 3%	3,124,251,451	2,041,927,649
INFOCOOP - 10%	6,564,431,217	4,178,337,192
Public capital pension operators	1,426,919,471	1,830,476,046
RIVM - 15%	7,474,586,004	3,920,722,526
	₡ 23,464,949,153	14,962,572,239

(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:

	2022			
	Carrying amount	Level	Carrying amount	Level
Financial assets:				
Cash and due from banks	₡ 1,470,874,684,814		1,470,874,684,814	
Investments at amortized cost	840,653,764,943		820,095,244,824	
Loan portfolio	4,771,658,426,160	(3)	4,947,318,927,889	(3)
	₡ 7,083,186,875,917		7,238,288,857,527	
Financial liabilities:				
Demand deposits from the public and financial entities	₡ 4,380,381,359,979	(3)	4,380,381,359,979	(3)
Other demand obligations with the public	16,272,444,040		16,272,444,040	
Term deposits from the public and financial entities	2,574,600,019,571	(3)	2,516,381,412,394	(3)
	₡ 6,971,253,823,590		6,913,035,216,413	

		2021			
		Carrying amount	Level	Carrying amount	Level
Financial assets:					
Cash and due from banks	¢	1,355,841,181,326		1,355,841,181,326	
Investments at amortized cost		917,505,890,841		917,823,601,607	
Loan portfolio		4,613,265,731,396	(3)	4,313,851,040,344	(3)
	¢	6,886,612,803,563		6,587,515,823,277	
Financial liabilities:					
Demand deposits from the public and financial entities	¢	4,494,145,622,206	(3)	4,494,145,622,206	(3)
Other demand obligations with the public		16,045,803,541		16,045,803,541	
Term deposits from the public and financial entities		2,561,173,940,184	(3)	2,527,806,130,895	(3)
	¢	7,071,365,365,931		7,037,997,556,642	

Fair value estimates

i. Valuation techniques and significant unobservable inputs

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

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

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

(b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2022 and 2021.

(c) Term deposits

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

(d) Obligations with entities

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

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

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

		2022			
		Level 1	Level 2	Level 3	Total
Fair value through profit or loss	¢	4,057,391,272	16,071,214,347	4,305,251,883	24,433,857,502
Fair value through other comprehensive income		585,704,089,628	-	-	585,704,089,628
Derivative financial instruments		-	-	16,413,585	16,413,585
Term obligations with foreign financial entities	¢	-	-	103,761,660,525	103,761,660,525

		2021			
		Level 1	Level 2	Level 3	Total
Fair value through profit or loss	¢	4,627,572,873	30,897,591,315	4,614,634,425	40,139,798,613
Fair value through other comprehensive income		803,324,087,665	3,892,580,138	-	807,216,667,803
Derivative financial instruments		-	-	7,723,704,438	7,723,704,438
Term obligations with foreign financial entities	¢	-	-	212,580,207,607	212,580,207,607

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

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

ii. *Recurring level 3 fair values*

As of December 31, financial instruments categorized as Level 3 in the fair value hierarchy are measured as follows:

		2022			2021		
		Fair value through profit or loss	Derivative financial instruments	Term obligations with foreign financial entities	Fair value through profit or loss	Derivative financial instruments	Term obligations with foreign financial entities
Opening balance	¢	4,614,634,425	7,723,704,438	212,580,207,607	4,414,744,410	15,753,371,710	400,679,619,801
Valuation		1,945,603	(7,205,878,085)	(7,637,697,906)	(1,257,042)	(8,742,342,397)	(5,816,934,282)
Amortizations		-	-	(590,578,809)	-	-	(273,124,830)
Exchange differences		(311,328,145)	(501,412,768)	(100,590,270,367)	201,147,057	712,675,125	(182,009,353,082)
Closing balance	¢	4,305,251,883	16,413,585	103,761,660,525	4,614,634,425	7,723,704,438	212,580,207,607

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(50) Segments

The Conglomerate has defined its business segments based on the administrative and reporting structure and the services provided by the Bank, the Brokerage Firm, the Investment Fund Manager, the Pension Fund Manager and the Insurance Brokerage Firm. Profit or loss, assets and liabilities of each segment are as follows:

		As of December 31, 2022							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS									
Cash and due from banks									
	¢	1,469,189,656,840	1,223,912,832	70,032,330	562,317,005	101,329,254	1,471,147,248,261	272,563,447	1,470,874,684,814
Investments in financial instruments		1,386,816,251,137	50,607,828,509	11,426,256,982	11,970,934,516	6,959,214,465	1,467,780,485,609	35,311,993	1,467,745,173,616
Loan portfolio, net		4,632,292,699,015	-	-	-	-	4,632,292,699,015	-	4,632,292,699,015
Fees and commissions receivable		408,251,262	11,928,939	43,131,130	771,753,878	565,548,845	1,800,614,054	17,053,255	1,783,560,799
Accounts receivable for brokerage operations		14,156,057	20,637,944	-	318,920	-	35,112,921	3,451,351	31,661,570
Accounts due from related parties		145,577,899	140,496,383	90,394,248	20,522	37,779,202	414,268,254	(20,165,502)	434,433,756
Deferred tax and income tax receivable		4,487,076,399	1,929,946	30,111,638	66,046,080	22,635,185	4,607,799,248	23,656,771	4,584,142,477
Other accounts receivable		725,933	-	-	-	-	725,933	-	725,933
Accrued interest receivable		(4,258,988,840)	-	(6,314,730)	(64,379,505)	-	(4,329,683,075)	-	(4,329,683,075)
Allowance for impairment		37,495,457,395	-	-	-	-	37,495,457,395	-	37,495,457,395
Assets held for sale, net		118,834,235,877	30,000,000	-	-	-	118,864,235,877	45,497,536,302	73,366,699,575
Investments in other companies		204,413,069,154	496,085,425	545,547,815	502,107,331	411,456,107	206,368,265,833	-	206,368,265,833
Property, furniture and equipment, net		52,717,345,955	1,042,754,643	477,630,629	213,468,458	264,327,598	54,715,527,283	-	54,715,527,283
Other assets	¢	7,902,555,514,083	53,575,574,621	12,676,790,042	14,022,587,205	8,362,290,656	7,991,192,756,607	45,829,407,617	7,945,363,348,991
TOTAL ASSETS									
LIABILITIES AND EQUITY									
LIABILITIES	¢	6,142,055,961,261	-	-	-	-	6,142,055,961,261	-	6,142,055,961,261
Obligations with the public		166,961,956,341	-	-	-	-	166,961,956,341	-	166,961,956,341
Obligations with BCCR		627,435,906,762	37,141,888,375	322,654,011	-	315,068,759	665,215,517,907	293,760,809	664,921,757,098
Obligations with entities		126,716,645,152	1,266,445,397	781,610,879	2,217,016,062	1,083,665,355	132,065,382,845	20,500,064	132,044,882,781
Accounts payable and provisions		30,510,993,847	-	-	-	-	30,510,993,847	14,114,640	30,496,879,207
Other liabilities		68,908,170,318	-	-	-	-	68,908,170,318	-	68,908,170,318
Subordinated obligations	¢	7,162,589,633,681	38,408,333,772	1,104,264,890	2,217,016,062	1,398,734,114	7,205,717,982,519	328,375,513	7,205,389,607,006

(Continued)

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As of December 31, 2022

		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	5,000,000,000	6,789,677,009	369,700,000	190,996,407,111	18,759,377,009	172,237,030,102
Non-capitalized capital contributions		-	-	-	2,105,248,000	-	2,105,248,000	2,105,248,000	-
Equity adjustments		65,091,090,087	(2,701,244)	(157,231,067)	(514,202,232)	-	64,416,955,544	(674,134,543)	65,091,090,087
Capital reserves		387,165,279,581	1,320,000,000	898,628,741	300,000,000	73,940,000	389,757,848,322	2,592,568,741	387,165,279,581
Prior year retained earnings		33,719,121,136	6,240,563,450	3,139,289,832	1,697,928,895	2,396,961,765	47,193,865,078	13,459,669,365	33,734,195,713
Income for the year		37,316,763,826	1,009,378,643	2,691,837,646	1,426,919,471	4,122,954,777	46,567,854,363	9,258,303,531	37,309,550,832
FOFIDE		44,436,595,670	-	-	-	-	44,436,595,670	-	44,436,595,670
TOTAL EQUITY	¢	739,965,880,402	15,167,240,849	11,572,525,152	11,805,571,143	6,963,556,542	785,474,774,088	45,501,032,103	739,973,741,985
TOTAL LIABILITIES AND EQUITY	¢	7,902,555,514,083	53,575,574,621	12,676,790,042	14,022,587,205	8,362,290,656	7,991,192,756,607	45,829,407,616	7,945,363,348,991
Debit memoranda accounts	¢	443,690,359,134	19,719,937	-	36,146,883	3,500,000	443,749,725,955	-	443,749,725,955
Income from cash and due from banks and financial instruments	¢	3,309,709,383,959	598,946,170	-	-	-	3,310,308,330,132	-	3,310,308,330,132
Trust liabilities	¢	83,298,961,129	9,281,853	-	-	-	83,308,242,976	-	83,308,242,976
Trust equity	¢	3,226,410,422,830	589,664,323	-	-	-	3,227,000,087,153	-	3,227,000,087,153
Other debit memoranda accounts	¢	27,484,970,600,693	1,058,181,093,893	608,549,474,735	2,239,475,709,783	-	31,473,639,610,694	-	31,473,639,610,694

As of December 31, 2022

		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢	471,545,153,740	2,765,314,529	1,027,799,658	1,884,701,512	209,004,120	477,431,973,559	13,631,657	477,418,341,902
Finance costs		189,578,950,730	1,565,345,414	138,299,276	109,937,236	15,857,050	191,408,389,706	13,631,657	191,394,758,050
Allowance expense		50,140,142,074	158,992,392	15,008,774	201,612,056	13,731,606	50,529,486,902	-	50,529,486,902
Income from recovery of assets		23,390,548,567	36,374,151	21,274,849	190,148,661	17,474,339	23,655,820,567	5,070,818	23,650,749,749
FINANCE INCOME		255,216,609,503	1,077,350,874	895,766,457	1,763,300,881	196,889,804	259,149,917,519	5,070,818	259,144,846,701
Other operating income		197,515,262,755	4,810,580,694	7,179,279,782	10,450,720,360	9,291,576,569	229,247,420,160	12,115,883,436	217,131,536,724
Other operating expenses		135,284,112,078	920,577,076	738,038,847	2,091,197,442	193,058,358	139,226,983,801	2,702,258,449	136,524,725,352
GROSS OPERATING INCOME		317,447,760,180	3,890,003,618	6,441,240,935	10,122,823,799	5,967,553,622	343,869,382,154	9,403,621,232	339,751,658,073
Personnel expenses		139,245,997,255	3,041,991,778	2,678,640,906	4,887,628,418	2,720,015,304	152,574,273,661	-	152,574,273,661
Other administrative expenses		80,706,542,719	467,721,960	635,280,709	984,562,915	410,949,285	83,205,057,588	154,313,617	83,050,743,971
Total administrative expenses		219,952,539,974	3,509,713,738	3,313,921,615	5,872,191,333	3,130,964,589	235,779,331,249	154,313,617	235,625,017,632
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		97,495,220,206	1,457,640,754	4,023,085,777	4,250,632,466	6,164,443,425	113,391,022,628	9,249,307,615	104,126,640,441
Income tax		40,286,741,354	424,463,460	1,224,906,826	1,269,274,550	1,856,555,345	45,061,941,535	(23,768,626)	45,085,710,161
Decrease in income tax		1,669,440,585	(19,930,572)	14,351,268	-	-	1,663,861,281	(69,708,424)	1,733,569,705
Statutory allocations		21,561,155,611	43,729,223	120,692,573	1,554,438,445	184,933,303	23,464,949,155	(166,439,970)	23,464,949,153
INCOME FOR THE YEAR	¢	37,316,763,826	1,009,378,643	2,691,837,646	1,426,919,471	4,122,954,777	46,567,854,363	9,369,807,787	37,309,550,832

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2021

		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS									
Cash and due from banks	¢	1,352,823,921,974	2,024,003,070	53,534,163	1,010,599,611	143,123,385	1,356,055,182,203	214,000,876	1,355,841,181,327
Investments in financial instruments		1,722,547,231,475	36,292,517,288	12,109,491,707	13,103,177,117	5,966,684,378	1,790,019,101,965	270,812,000	1,789,748,289,965
Loan portfolio, net		4,477,434,448,101	-	-	-	-	4,477,434,448,101	-	4,477,434,448,101
Fees and commissions receivable		552,182,422	37,990,467	50,264,032	1,061,581,674	279,083,746	1,981,102,341	24,805,484	1,956,296,857
Accounts due from related parties		29,395,888	3,254,865	-	607,014	-	33,257,767	16,948,359	16,309,408
Deferred tax and income tax receivable		141,325,587	-	19,035,938	427,305,496	30,286,861	617,953,882	457,524,281	160,429,601
Other accounts receivable		4,029,379,663	72,362,742	7,321,452	71,103,277	1,830,686	4,181,997,820	-	4,181,997,820
Accrued interest receivable		1,923,294	-	-	-	-	1,923,294	-	1,923,294
Allowance for impairment		(4,006,933,384)	-	(6,766,845)	(59,841,629)	-	(4,073,541,858)	-	(4,073,541,858)
Assets held for sale, net		35,788,800,197	-	-	-	-	35,788,800,197	-	35,788,800,197
Investments in other companies		124,465,643,338	30,000,000	-	-	-	124,495,643,338	47,682,877,272	76,812,766,066
Property, furniture and equipment, net		207,718,160,856	602,818,747	272,388,398	437,589,157	153,086,796	209,184,043,954	-	209,184,043,954
Other assets		57,529,344,003	191,491,291	408,918,691	162,517,849	289,888,072	58,582,159,906	-	58,582,159,906
TOTAL ASSETS	¢	7,979,054,823,414	39,254,438,470	12,914,187,536	16,214,639,566	6,863,983,924	8,054,302,072,910	48,666,968,272	8,005,635,104,638
LIABILITIES AND EQUITY									
LIABILITIES									
Obligations with the public	¢	6,097,748,047,773	-	-	-	-	6,097,748,047,773	-	6,097,748,047,773
Obligations with BCCR		168,243,245,538	-	-	-	-	168,243,245,538	-	168,243,245,538
Obligations with entities		788,639,036,300	20,343,663,969	-	-	-	808,982,700,269	480,959,698	808,501,740,571
Accounts payable and provisions		107,563,986,658	1,752,974,338	1,389,352,386	3,215,924,817	847,382,157	114,769,620,356	499,278,139	114,270,342,217
Other liabilities		26,976,144,045	-	-	-	-	26,976,144,045	3,853,178	26,972,290,868
Subordinated obligations		58,367,371,894	-	-	-	-	58,367,371,894	-	58,367,371,894
TOTAL LIABILITIES	¢	7,247,537,832,207	22,096,638,307	1,389,352,386	3,215,924,817	847,382,157	7,275,087,129,875	984,091,015	7,274,103,038,860

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		As of December 31, 2021							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY									
Share capital	¢	172,237,030,102	6,600,000,000	5,000,000,000	7,206,869,364	369,700,000	191,413,599,466	19,176,569,364	172,237,030,102
Non-capitalized capital contributions		-	-	-	1,688,055,645	-	1,688,055,645	1,688,055,645	-
Equity adjustments		93,316,808,915	297,236,716	477,916,563	1,528,031,076	-	95,619,993,270	2,303,184,355	93,316,808,915
Capital reserves		364,737,238,098	1,320,000,000	600,000,000	300,000,000	73,940,000	367,031,178,098	2,293,940,000	364,737,238,098
Prior year retained earnings		40,386,334,461	6,192,856,556	2,166,181,397	431,588,155	1,958,918,671	51,137,393,516	10,754,243,340	40,383,150,176
Income for the year		19,152,075,606	2,747,706,891	3,279,222,916	1,844,170,508	3,614,043,094	30,637,219,015	11,466,884,548	19,170,334,467
FOFIDE		41,687,504,022	-	-	-	-	41,687,504,022	-	41,687,504,022
TOTAL EQUITY	¢	731,516,991,204	17,157,800,162	11,524,835,152	12,998,714,750	6,016,601,765	779,214,943,033	47,682,877,255	731,532,065,780
TOTAL LIABILITIES AND EQUITY	¢	7,979,054,823,412	39,254,438,469	12,914,187,538	16,214,639,567	6,863,983,922	8,054,302,072,908	48,666,968,270	8,005,635,104,638
Debit memoranda accounts	¢	499,131,273,356	76,434,274	2,000,000	31,918,461	2,840,000	499,244,466,091	-	499,244,466,091
Income from cash and due from banks and financial instruments	¢	2,994,750,018,838	1,510,391,223	-	-	-	2,996,260,410,061	-	2,996,260,410,061
Trust liabilities	¢	125,311,724,591	401,025	-	-	-	125,312,125,616	-	125,312,125,616
Trust equity	¢	2,869,438,294,247	1,509,990,198	-	-	-	2,870,948,284,445	-	2,870,948,284,445
Other debit memoranda accounts	¢	26,924,093,940,397	1,080,445,381,521	772,807,168,587	2,299,915,212,842	-	31,077,261,703,346	-	31,077,261,703,347

		As of December 31, 2021							
		Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
Finance income	¢	426,425,237,775	2,710,754,252	1,001,446,665	1,232,015,432	201,912,912	431,571,367,036	33,753,166	431,537,613,870
Finance costs		160,347,043,121	265,854,997	96,480,009	1,261,881	-	160,710,640,008	33,753,170	160,676,886,838
Allowance expense		84,574,096,066	31,205,904	66,331,764	68,098,137	27,034,084	84,766,765,955	159,463	84,766,606,492
Income from recovery of assets		17,126,726,767	33,625,402	32,215,367	28,648,929	12,310,455	17,233,526,919	-	17,233,526,919
FINANCE INCOME		198,630,825,355	2,447,318,753	870,850,259	1,191,304,343	187,189,283	203,327,487,992	(159,467)	203,327,647,459
Other operating income		173,732,765,573	6,783,554,713	7,917,204,078	11,857,219,813	7,976,506,720	208,267,250,897	14,120,094,215	194,147,156,682
Other operating expenses		110,716,657,610	932,263,895	790,948,274	2,044,996,044	147,563,491	114,632,429,314	2,528,686,374	112,103,742,940
GROSS OPERATING INCOME		261,646,933,318	8,298,609,571	7,997,106,063	11,003,528,112	8,016,132,512	296,962,309,575	11,591,248,374	285,371,061,201
Personnel expenses		129,837,269,358	3,757,188,377	2,421,968,558	4,508,105,665	2,282,380,570	142,806,912,528	-	142,806,912,528
Other administrative expenses		71,987,487,432	526,277,465	658,464,048	1,032,273,091	337,518,401	74,542,020,437	124,363,826	74,417,656,611
Total administrative expenses		201,824,756,790	4,283,465,842	3,080,432,606	5,540,378,756	2,619,898,971	217,348,932,965	124,363,826	217,224,569,139
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES		59,822,176,527	4,015,143,729	4,916,673,457	5,463,149,356	5,396,233,541	79,613,376,610	11,466,884,548	68,146,492,062
Income tax		29,350,626,482	1,273,011,670	1,499,902,111	1,627,794,304	1,623,636,182	35,374,970,749	-	35,374,970,749
Decrease in income tax		1,221,352,863	126,029,145	10,670,644	-	3,332,741	1,361,385,393	-	1,361,385,393
Statutory allocations		12,540,827,303	120,454,312	148,219,075	1,991,184,543	161,887,006	14,962,572,239	-	14,962,572,239
INCOME FOR THE YEAR	¢	19,152,075,605	2,747,706,892	3,279,222,915	1,844,170,509	3,614,043,094	30,637,219,015	11,466,884,548	19,170,334,467

(Continued)

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

	Number of cases		Stage		Total estimated amount	
	2022	2021			2022	2021
Banco Nacional de Costa Rica	311	323	First instance	¢	58,176,652,103	98,977,210,067
	15	18	Second instance		25,909,357,208	9,005,118,064
	58	49	Appeal		16,560,859,812	47,597,000,867
	384	390			100,646,869,123	155,579,328,998
	7	7	First instance		36,146,883	31,918,461
BN Vital	2	2	Appeal		-	-
	9	9			36,146,883	31,918,461
BN Valores	1	1	First instance		19,719,937	76,434,274
BN SAFI	0	1	First instance		-	2,000,000
BN Corredora	1	1	First instance		3,500,000	2,840,000
	395	402	(Note 27)	¢	100,706,235,943	155,692,521,733

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

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

Number of cases		Stage		Total estimated amount	
2022	2021			2022	2021
293	322	First instance	¢	74,364,573,951	79,987,551,144
1	1	Second instance		375,839,600	375,839,600
2	2	Appeal		2,844,233,566	2,844,233,566
296	325		¢	77,584,647,117	83,207,624,310

Additionally, the Bank was a defendant in one lawsuit related to the payment of SEDI, the file for such proceedings is File No. 15-008666-1027-CA of the Administrative Court of November 20, 2015, received on December 15, 2015. As of December 31, 2022, the Bank settled the provision since the sentence for that lawsuit was in favor of the Bank.

The following lawsuits are also worth noting:

- *File No. 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.

  ✓ On November 15, 2021, a hearing for the correction of procedural errors was held, in which the Court made a series of findings and reviewed the new evidence filed by the plaintiff. The Court decided to return the proceedings to the processing stage so that the corresponding corrections can be made and to include the legal entity PROSUM. The payment of expert fees was processed, but it is premature due to the status of the proceedings.

  ✓ Current status: The proceedings have been returned to the preliminary hearing phase.

- *File No. 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 Banco Nacional de Costa Rica to obtain credit approval, and the apparent participation of some of the employees of Banco Nacional de Costa Rica.

- ✓ Through ruling dated November 2, 2021, at 16:11 hours, the Criminal Court of Finance provided the date for the preliminary hearing, from April 5 to June 30, 2022. However, due to the requests from the defense to change the summons, and due to sick leaves and tight agendas, through ruling dated April 4, 2022, at 14:45 hours, the summons was dismissed. Through a new ruling dated August 11, 2022, at 11:22 hours, a preliminary hearing was summoned from April 11 to May 1, 2023, from 8:30 hours to 16:30 hours.

- ✓ Current status: The cause has a request for accusation and proceedings of opening of the trail. The Bank filed a complaint and a civil action. Civil actions have been filed against the Bank.

- *File No.: 14-008626-1027-CA*

  - ✓ Statement of facts: The plaintiffs seek Banco Nacional de Costa Rica 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: In light of new errors in the calculation of the indemnification in favor of the trust's title holders, a new appeal was filed, whose admissibility is being studied in 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 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, 2022, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,598,146,402,194, representing 33.96% of the total loan portfolio (2021: ¢1,984,852,553,271, representing 42.73% of the total loan portfolio).

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

		2022	2021
Agriculture and forestry	¢	38,043,804,589	50,679,602,088
Trade		139,906,885,549	177,668,570,650
Construction		39,084,698,917	57,079,493,093
Consumer or personal loans		104,770,214,017	140,315,345,556
Electricity, water, sanitation and other related sectors		24,834,021,726	170,683,996,232
Mining		56,579,482,565	315,774,759
Livestock, hunting and fishing		428,764,218,666	33,336,273,387
Industry		28,010,476,880	87,566,129,712
Services		30,690,792,689	528,078,318,447
Financial service		103,169,667,550	31,625,084,816
Transportation, communication and storage		454,735,064,809	38,823,600,256
Tourist		149,277,954,802	163,210,454,349
Housing		279,119,435	505,469,909,927
Sub-total		1,598,146,402,194	1,984,852,553,272
Accounts and accrued interest receivable		2,433,088,971	2,176,885,953
Loans restructured due to COVID-19		1,600,579,491,165	1,987,029,439,225
Allowance for doubtful accounts		(46,291,100,287)	(48,608,619,661)
Loan portfolio, net	¢	1,554,288,390,878	1,938,420,819,563

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

		2022	2021
Current	¢	1,440,921,652,002	1,846,458,129,874
1 to 30 days		35,576,424,249	34,458,315,104
31 to 60 days		45,012,045,725	39,761,510,557
61 to 90 days		20,576,319,470	15,106,421,740
91 to 120 days		3,188,010,948	7,235,778,972
121 to 150 days		16,256,314,729	4,449,181,727
In legal collection		36,615,635,071	37,383,215,298
		1,598,146,402,194	1,984,852,553,272
Accounts and accrued interest receivable		2,433,088,971	2,176,885,953
Total loans restructured due to COVID-19		1,600,579,491,165	1,987,029,439,225
Allowance for loan losses		(46,291,100,287)	(48,608,619,661)
Loan portfolio, net	¢	1,554,288,390,878	1,938,420,819,564

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

		2022	2021
Collateral	¢	35,686,788,099	58,294,189,127
Surety		15,149,890,641	20,670,755,440
Assignment of loans		49,919,949,933	87,299,935,436
Back-to-back		2,664,853,940	3,884,342,685
Mortgage		682,199,540,249	794,772,089,972
Trust		146,715,324,573	190,541,750,232
Surety - Mortgage		154,986,406,086	189,921,758,678
Surety - Trust		197,714,226,031	278,784,020,584
Other		252,800,353,245	290,166,392,276
Not assigned		2,809,295,736	3,212,232,131
Surety - Collateral		5,387,269,340	9,249,816,018
Collateral - Mortgage		858,234,889	1,153,368,479
Collateral - Securities		8,207,802	16,574,399
Surety - Collateral - Mortgage		2,412,966,802	3,634,064,223
Securities		25,868,924,298	29,191,295,063
Mortgage - Trust		93,013,458	199,507,307
Collateral - Back-to-back		-	8,753,998
Surety - Securities		48,426,591	73,099,529
Bond guaranteed by mortgage		-	8,973,296
Collateral - Trust		22,822,730,481	23,769,634,399
		1,598,146,402,194	1,984,852,553,272
Accounts and accrued interest receivable		2,433,088,971	2,176,885,953
Loans restructured due to COVID-19		1,600,579,491,165	1,987,029,439,225
Allowance for loan losses		(46,291,100,287)	(48,608,619,661)
Loan portfolio, net	¢	1,554,288,390,878	1,938,420,819,564

As of December 31, 2022, ¢1,598,146,402,194 maintain temporary credit conditions, which represents 33.96% of the entire loan portfolio (2021: ¢1,984,852,553,271, representing 42.73% of the total loan portfolio).

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.

- As of the date of this report, the Bank has 3,206 employees working from home, representing 56% of total employees. All positions that permit work from home have been implemented.

(Continued)

- Some of the autobanks that were not in operation were activated once again.

- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

b) Measures to support customers with credits

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

As of December 31, 2022, there are no active extensions as a result of loan restructuring due to Covid-19.

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

- Maintaining the plan to restructure the portfolio of repeat customers due to changes in market conditions.

- Recovering the extended balances of principal and interest or balances of unpaid operations, through a medium-term plan.

- Maintaining a more personalized attention through the archetypes and segments so as to provide customers with better advisory if needed.

c) Liquidity measures

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

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

d) Measures in the portfolio of investments at amortized cost

Due to the COVID-19 pandemic, the Bank has directly followed up on the corporate bonds portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of December 31, 2022, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(53) Relevant events

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

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

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

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

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

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

b) Deferred term operations

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

As of December 31, 2022, 2,981 loan operations were placed under this modality, applying a discount to the interest rate on the loans in colones in the amount of ¢161,438,554,159, reaching an average rate of the operations already processed of 6.03%. The remaining average maturity term is 12.66 years.

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

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

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

(54) Reclassification of the loan portfolio in legal collection

At the 2022 close, the loan portfolio in legal collection was reclassified to the past due loans account, in conformity with the chart of accounts of SUGEF Directive 30-18, currently CONASSIF 06-18, which reads as follows:

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

In compliance with the foregoing, as of December 31, 2022, the amount of ¢39,158,624,631 was reclassified (2021: ¢81,671,053,225).

(55) Subsequent events

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

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

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

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

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

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

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

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

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

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

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

b) IAS 38: Intangible assets

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

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

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

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

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

d) IFRS 9: Financial Instruments

For application of IFRS 9, particularly the measurement of ECL, the prudential regulations issued by CONASSIF will be maintained for the loan portfolio, accounts receivable and stand-by credits granted, until this Standard is modified.

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

e) IFRS 12: Income Taxes

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

i. The provisions of Article 10 of IAS 12 *Income Taxes* and IFRIC 23 *Uncertainty over Income Tax Treatments* became effective from January 1, 2019. On initial application of IFRIC 23, entities had to apply the transition established in item (b) of paragraph B2 of that Interpretation.

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

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

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

b. Booking a single adjustment to the opening balance of prior period retained earnings until reaching the provision amount. Adjustments derived from subsequent evaluations of the amounts in dispute will be treated as adjustments to allowances, for which IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* will be applied.

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

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

(57) 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.