

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Financial Information required by the
Superintendency General of Financial Entities

Consolidated Financial Statements

As of December 31, 2023
(With corresponding figures for 2022)

(With the Independent Auditors' Report thereon)

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



KPMG S.A.
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Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica

Opinion

We have audited the consolidated financial statements of Banco Nacional de Costa Rica and Subsidiaries (the Conglomerate), which comprise the consolidated statement of financial position as of December 31, 2023, the consolidated statements of comprehensive income, changes in equity, and cash flows for the year then ended, and notes, comprising material 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, 2023, 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed in our audit
1. Compliance with the regulation to determine the allowance for loan losses	
<p>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 6).</p> <p>According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages to each borrower, according to their risk rating, which considers the days of arrears, creditworthiness, and historical payment behavior.</p> <p>The elements to be considered as basis for the allowance are: the balance of the loan for each borrower, current interest, and stand-by credits.</p> <p>The allowance percentage is applied to the net balance not covered by collaterals eligible for risk mitigation, in conformity with the mitigation percentages established in the aforementioned regulation.</p>	<p>Our procedures in this area included:</p> <ul style="list-style-type: none"> • 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;

	<ul style="list-style-type: none">• 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.
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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:

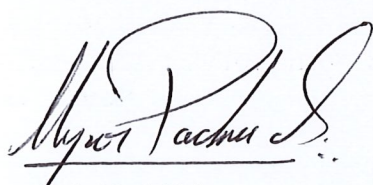
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of 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.



KPMG

Nombre del CPA: Mynor Pacheco Solano
Carné: 2159
Cédula: 158210007
Nombre del Cliente:
BANC CONSOLIDADO
Identificación del cliente:
405001121
Dirigido a:
Banco de Amos Araya
Fecha:
07/03/2024 a las 21:15
Tipo de trabajo:
Informe de Auditoría
Timbre de \$1000 de la Ley
6663 adherido y cancelado en
el original.



Código de Timbre: CPA 1000 10165

March 22, 2024

San José, Costa Rica
Mynor Pacheco Solano.
Member No. 4596
Policy No. 0116-FID000711012
Expires 09/30/2024

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023
(With corresponding figures for 2022)
(In colones)

	Note	2023	2022
ASSETS			
Cash and due from banks	9	1,429,362,414,317	1,470,874,684,814
Cash		102,718,169,600	120,946,392,526
BCCR		926,640,987,647	876,032,752,531
Local financial entities		786,731,635	704,838,436
Foreign financial entities		258,384,327,377	339,557,541,465
Notes payable on demand		7,794,869,384	7,446,883,299
Restricted cash and due from banks		133,037,328,674	126,186,276,557
Investments in financial instruments	10	1,389,619,789,751	1,467,745,173,616
At fair value through profit or loss (FVTPL)		23,521,412,984	24,433,857,502
At fair value through other comprehensive income (FVOCI)		614,745,008,391	585,704,089,628
At amortized cost		730,519,651,897	840,653,764,943
Derivative financial instruments	11	364,305,137	16,413,585
Accrued interest receivable		21,887,088,090	19,867,240,764
(Allowance for impairment of investments in financial instruments)		(1,417,676,748)	(2,930,192,806)
Loan portfolio	12	4,877,519,107,981	4,632,292,699,015
Current		4,662,670,755,200	4,422,146,926,877
Past due		218,111,190,606	229,419,023,669
In legal collection		77,537,248,628	54,090,100,225
Direct incremental costs related to loans		6,360,771,801	5,755,898,412
(Deferred income on loan portfolio)		(48,113,222,075)	(41,927,136,381)
Accrued interest receivable		90,753,414,848	102,173,613,358
(Allowance for loan losses)		(129,801,051,027)	(139,365,727,145)
Accounts and fees and commissions receivable	13	3,476,587,534	2,504,841,460
Fees and commissions receivable		2,200,365,080	1,783,560,799
Accounts receivable for transactions with related parties		22,176,642	31,661,570
Deferred tax and income tax receivable		648,546,893	434,433,756
Other receivables		8,216,956,498	4,584,142,477
Accrued interest receivable		2,012,794	725,933
(Allowance for impairment of accounts and fees and commissions receivable)		(7,613,470,373)	(4,329,683,075)
Assets held for sale	14	36,457,157,242	37,495,457,395
Assets and securities acquired in lieu of payment		98,643,910,547	98,126,485,936
Other assets held for sale		-	55,884,628
(Allowance for impairment of assets held for sale and per legal requirements)		(62,186,753,305)	(60,686,913,169)
Investments in other companies	15	68,426,438,887	73,366,699,575
Property, furniture, equipment and right-of-use assets, net	16	238,627,811,109	206,368,265,833
Other assets	17	42,245,257,014	54,715,527,283
Deferred charges		22,377,026	14,330,485,937
Intangible assets		5,627,898,600	8,977,676,831
Other assets		36,594,981,388	31,407,364,515
TOTAL ASSETS		8,085,734,563,835	7,945,363,348,991

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, 2023
(With corresponding figures for 2022)
(In colones)

LIABILITIES AND EQUITY	Note	2023	2022
LIABILITIES			
Obligations with the public	18	6,450,404,259,373	6,142,055,961,261
Demand obligations		4,437,525,057,675	4,314,717,356,387
Term obligations		1,954,394,980,375	1,790,666,793,187
Finance charges payable		58,484,221,323	36,671,811,687
Obligations with BCCR	19	147,587,061,477	166,961,956,341
Term obligations		144,471,880,512	164,696,408,078
Finance charges payable		3,115,180,965	2,265,548,263
Obligations with entities	20	454,239,825,194	664,921,757,098
Demand obligations		60,292,899,127	45,264,635,945
Term obligations		391,802,381,945	616,971,270,043
Other obligations with entities		-	(103,269,735)
Finance charges payable		2,144,544,122	2,789,120,845
Accounts payable and provisions		147,154,885,352	132,044,882,781
Provisions	22	23,286,568,787	10,823,942,633
Accounts payable for brokerage services		483,204,962	778,552,285
Deferred tax	21-b	16,237,762,955	7,096,010,583
Other sundry accounts payable	23	107,147,348,648	113,346,377,280
Other liabilities	24	33,111,379,327	30,496,879,207
Deferred income		88,687,508	100,946,981
Other liabilities		33,022,691,819	30,395,932,226
Subordinated obligations	25	59,065,779,037	68,908,170,318
Subordinated obligations		56,903,040,000	66,820,890,000
Finance charges payable		2,162,739,037	2,087,280,318
TOTAL LIABILITIES		7,291,563,189,760	7,205,389,607,006
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		80,711,724,550	65,091,090,087
Reserves	26-b	422,198,198,610	387,165,279,581
Prior-period retained earnings		32,628,167,802	33,734,195,713
Income for the year		37,771,657,785	37,309,550,832
Capital contributions or special funds	26-c	48,624,595,226	44,436,595,670
TOTAL EQUITY		794,171,374,075	739,973,741,985
TOTAL LIABILITIES AND EQUITY		8,085,734,563,835	7,945,363,348,991
DEBIT MEMORANDA ACCOUNTS	27	411,531,590,103	443,749,725,955
TRUST ASSETS	28	2,842,910,508,528	3,310,308,330,129
TRUST LIABILITIES		64,250,521,545	83,308,242,976
TRUST EQUITY		2,778,659,986,983	3,227,000,087,153
TRUST MEMORANDA ACCOUNTS		7,438,086,100	223,028,308,333
OTHER DEBIT MEMORANDA ACCOUNTS	29	35,447,999,328,914	31,473,639,610,694
Own debit memoranda accounts		12,546,485,111,758	10,139,739,803,226
Third-party debit memoranda accounts		4,956,547,223,229	4,722,010,921,517
Own debit memoranda accounts for custodial activities		640,304,967,101	527,864,839,532
Third-party debit memoranda accounts for custodial activities		17,304,662,026,826	16,084,024,046,419

Rosaysella Ulloa Villalobos
General Manager a.i.

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 31119
Contador: MORALES CENTENO
ALEJANDRA
Estado de Situación Financiera
2024-04-17 08:42:57 -0600



TIMBRE 300.0 COLONES

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(With corresponding figures for 2022)
(In colones)

	Note	2023	2022
Finance income			
Cash and due from banks	33	14,881,422,198	6,121,079,091
Investments in financial instruments	33	89,907,012,327	55,650,289,585
Loan portfolio	34	477,338,620,776	399,102,186,590
Gain on financial instruments at FVTPL		434,395,306	275,865,856
Gain on financial instruments at FVOCI		6,337,817,834	2,674,164,874
Other finance income	35	7,462,542,945	13,594,755,906
Total finance income		596,361,811,386	477,418,341,902
Finance costs			
Obligations with the public	36	244,306,520,722	130,663,995,298
Obligations with BCCR		1,293,225,824	1,469,023,262
Obligations with financial and non-financial entities	37	34,757,184,618	32,915,704,016
Subordinated, convertible and preferred obligations		6,684,432,671	5,786,919,313
Loss on foreign exchange differences and DU, net	6-d	1,242,625,293	613,117,960
Loss on financial instruments at FVTPL		1,174,280,486	461,424,631
Loss on financial instruments at FVOCI		2,759,566,376	4,131,315,385
Loss on derivative financial instruments, net	11	27,562,462	6,994,150,169
Other finance costs	38	6,067,448,794	8,359,108,016
Total finance costs		298,312,847,246	191,394,758,050
Allowance for impairment of assets	39	42,155,525,286	50,529,486,900
Recovery of assets and decrease in allowances	40	22,267,318,833	23,650,749,749
FINANCE INCOME		278,160,757,687	259,144,846,701
Other operating income			
Service fees and commissions	41	169,837,229,643	169,574,431,232
Assets held for sale		5,503,416,095	7,346,302,970
Gain on investments in other companies	8	3,298,387,922	1,952,980,119
Foreign currency exchange and arbitrage		33,428,409,741	28,560,481,778
Other income from related parties		362,156,433	-
Other operating income	42	10,645,280,398	9,697,340,625
Total other operating income		223,074,880,232	217,131,536,724

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

Continued...

BANCO NACIONAL DE COSTA RICA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023
(With corresponding figures for 2022)
(In colones)

	Note	2023	2022
Other operating expenses			
Service fees and commissions		41,597,649,785	42,279,287,668
Assets held for sale	43	16,077,672,391	20,907,270,097
Provisions	44	23,335,314,909	5,592,968,973
Bonuses on fees and commissions of voluntary pension funds		358,512,402	214,522,178
Foreign currency exchange and arbitrage		15,134,696	43,166,247
Other expenses with related parties		-	58,886,517
Other operating expenses	45	73,923,940,168	67,428,623,672
Total other operating expenses		155,308,224,351	136,524,725,352
GROSS OPERATING INCOME		345,927,413,568	339,751,658,073
Administrative expenses			
Personnel expenses	46	155,415,409,504	152,574,273,661
Other administrative expenses	47	89,963,091,691	83,050,743,971
Total administrative expenses		245,378,501,195	235,625,017,632
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		100,548,912,373	104,126,640,441
Income tax	21-a	20,166,752,706	29,148,260,936
Prior year income tax	21-a	14,189,237,931	14,189,237,931
Deferred tax	21-a	1,888,723,862	1,748,211,294
Decrease in prior-period income tax	21-a	1,207,402,404	-
Deferred tax income	21-a	1,004,004,343	1,733,569,705
Statutory allocations	48	28,743,946,836	23,464,949,153
INCOME FOR THE YEAR		37,771,657,785	37,309,550,832
OTHER COMPREHENSIVE INCOME, NET OF TAX			
Items that will not be reclassified to profit or loss			
Surplus from revaluation of property		10,648,933,893	90,819,542
Other adjustments		(7,321,021,762)	(8,376,895,670)
Items that are or may be reclassified to profit or loss			
Adjustment for valuation of investments at FVOCI		13,142,311,960	(20,572,807,920)
Surplus from revaluation of other assets		(36,388,203)	(8,990,579)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		16,433,835,888	(28,867,874,627)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		54,205,493,673	8,441,676,205

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEP
Registro Profesional: 21119
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ALEJANDRA
Estado de Resultados Integral
2024-04-17 09:42:58 -0600



TIMBRE 300.0 COLONES

VERIFICACIÓN: UDKyILhe
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE YEAR ENDED DECEMBER 31, 2023
(With corresponding figures for 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, 2021	172,237,030,102	93,316,808,915	364,737,238,098	41,687,504,022	59,553,484,643	731,532,065,780
<i>Transactions with owners booked directly in equity:</i>						
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 FVOCI	10	(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	172,237,030,102	65,091,090,087	387,165,279,581	44,436,595,670	71,043,746,545	739,973,741,985

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BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
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Contador: MORALES CENTENO
ALEJANDRA
Estado de Cambios en el Patrimonio
2024-04-17 08:42:58 -0600



TIMBRE 300.0 COLONES

VERIFICACIÓN: UDKyLhe
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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, NET
FOR THE YEAR ENDED DECEMBER 31, 2023
(With corresponding figures for 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, 2022	172,237,030,102	65,091,090,087	387,165,279,581	44,436,595,670	71,035,884,962	739,965,880,402
<i>Transactions with owners booked directly in equity:</i>						
Legal reserves	-	-	37,365,747,265	-	(37,365,747,265)	-
Other statutory reserves	-	-	(2,332,828,236)	-	2,332,828,236	-
Capital contributions in special funds	-	-	-	4,187,999,556	(4,187,999,556)	-
Total transactions with owners booked directly in equity	-	-	35,032,919,029	4,187,999,556	(39,220,918,585)	-
Comprehensive income for the year:						
Income for the year	-	-	-	-	37,771,657,785	37,771,657,785
Surplus from revaluation of property	-	10,648,933,893	-	-	-	10,648,933,893
Adjustment for valuation of investments at FVOCI	10	13,142,311,960	-	-	-	13,142,311,960
Surplus from revaluation of other assets	-	(36,388,203)	-	-	-	(36,388,203)
Other adjustments	-	(7,321,021,762)	-	-	-	(7,321,021,762)
Realization of surplus from revaluation of property	-	(813,201,425)	-	-	813,201,425	-
Total comprehensive income for the year	-	15,620,634,463	-	-	38,584,859,210	54,205,493,673
Balance at December 31, 2023	172,237,030,102	80,711,724,550	422,198,198,610	48,624,595,226	70,399,825,587	794,171,374,075

Rosaysella Ulloa Villalobos
General Manager a.i.

Alejandra Morales Centeno
General Accountant
CPI 21119

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021

BANCO NACIONAL DE COSTA RICA

Atención: SUGEF

Registro Profesional: 21119

Contador: MORALES CENTENO
ALEJANDRA

Estado de Cambios en el Patrimonio

2024-04-17 08:42:58 -0600



TIMBRE 300.0 COLONES



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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023
(With corresponding figures for 2022)
(In colones)

	Note	2023	2022
Cash flows from operating activities			
Income for the year		37,771,657,785	37,309,550,832
Items not requiring cash			
Depreciation and amortization		24,469,217,066	23,284,077,940
(Gain) on foreign exchange differences and DU, net		(86,068,235,213)	(50,230,718,380)
Loss on sale of non-financial assets		4,963,231,382	8,286,644,496
Finance income		(567,245,633,103)	(454,752,476,175)
Finance costs		170,925,983,486	101,674,932,197
Allowance for investments, net		(2,884,652,315)	(753,250,490)
Allowance for loan losses, net		34,069,552,708	46,950,535,780
Allowance for other accounts receivable, net		4,387,359,067	1,262,859,712
Loss on allowance for assets held for sale, net		1,555,724,764	1,791,434,781
Severance provision		4,547,132	(58,533,291)
Other provisions		19,904,889,878	11,461,009,206
Share of net profit of foreign associate		(3,298,387,929)	(1,952,980,131)
Statutory allocations, net		28,743,946,836	23,464,949,153
Income tax expense, net	21-a	33,148,588,233	43,337,498,867
Deferred tax, net	21-a	884,719,519	14,641,589
		(298,667,490,704)	(208,909,823,914)
Cash flows from operating activities			
Loan portfolio		(478,524,696,008)	(316,163,140,984)
Accounts and fees and commissions receivable		4,245,263,128	(4,981,822,239)
Assets held for sale		23,622,402,924	15,688,807,330
Other assets		15,349,496,236	17,745,348,905
Obligations with the public		607,971,735,859	227,350,847,152
Obligations with BCCR and other entities		(172,979,100,025)	(137,392,815,202)
Obligations for accounts payable, fees and commissions payable and provisions		2,121,102,294	(16,157,868,052)
Accrued interest payable on obligations			
Other liabilities		991,652,931	4,786,029,451
		2,797,857,339	(209,124,613,639)
Income tax paid		(50,453,485,607)	(33,871,964,198)
Interest received on loan portfolio and investments		576,645,984,287	463,052,825,965
Interest paid on term obligations with the public and financial entities		(148,908,517,871)	(91,448,952,006)
Statutory allocations paid		(23,464,949,153)	(14,965,512,391)
Net cash from (used in) operating activities		57,949,398,291	(95,268,040,183)
Cash flows from investing activities			
Increase in financial instruments		(1,293,444,616,614)	(1,337,897,811,012)
Decrease in financial instruments		1,419,200,524,141	1,442,655,645,777
Acquisition of property and equipment		(29,260,134,921)	(27,983,686,036)
Sale of property and equipment		161,342,449	(182,032,714)
Acquisition of intangible assets		(2,243,483,181)	(5,570,038,173)
Net cash from investing activities		94,413,631,874	71,022,077,842
Cash flows from financing activities			
Settlement of financial obligations		(79,588,830,117)	(9,268,170,330)
New financial obligations		-	3,014,300,000
Payment of lease liabilities	16	(2,982,590,930)	(2,138,603,083)
Net cash used in financing activities		(82,571,421,047)	(8,392,473,413)
Net increase (decrease) in cash and cash equivalents		69,791,609,118	(32,638,435,754)
Cash and cash equivalents at beginning of year		1,578,737,708,410	1,611,376,144,164
Cash and cash equivalents at end of year	9	1,648,529,317,528	1,578,737,708,410

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO
ALEJANDRA
Estado de Flujos de Efectivo
2024-04-17 08:42:58 -0600



TIMBRE 300.0 COLONES

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023
(With corresponding figures for 2022)

(1) Reporting entity

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, the Bank has 153 offices, 465 ATMs and along with its subsidiaries a total of 5,748 employees (2022: 153 offices, 468 ATMs and along with its subsidiaries a total of 5,700 employees). Employees are distributed as follows: Banco Nacional de Costa Rica – 5,276 employees (2022: 5,232); BN Valores Puesto de Bolsa, S.A. - 72 employees (2022: 73); BN Vital Operadora de Planes de Pensiones Complementarias, S.A. - 196 employees (2022: 199); BN Sociedad Administradora de Fondos de Inversión, S.A. - 98 employees (2022: 90); and BN Sociedad Corredora de Seguros, S.A. - 106 employees (2022: 106). The Bank's website is www.bncr.fi.cr.

The following subsidiaries are wholly owned by the Bank:

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

BN Centro de Procesos, S.A. was organized as a corporation under the laws of the Republic of Costa Rica. It was authorized to operate in the financial conglomerate of Banco Nacional according to a resolution by the National Financial System Oversight Board (CONASSIF), agreement in Article 10 of Minutes of Meeting No. CNS-1817/10 held on August 28, 2023. Subsequently, on October 9, through official communication SGF 2620-2023, the registration of the entity was confirmed. Its activities are regulated by the legal framework for the creation of a company for a financial conglomerate, paragraph 2 of Article 141 of the *Internal Regulations of the Central Bank of Costa Rica* (Law No. 7558) and numeral 3 of Article 73 of the *Internal Regulations of the National Banking and Financial System* (Law No. 1644) and CONASSIF through its regulations and provisions.

As of December 31, 2023, BN Centro de Procesos S.A. has not begun operations until the Office of the Comptroller General of the Republic authorizes the corresponding budget.

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2023					
	BN Valores Puesto de Bolsa, S.A.	BN Sociedad Administradora de Fondos de Inversión, S.A.	BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	BN Sociedad Corredora de Seguros, S.A.	BICSA
Assets	¢ 66,429,894,166	17,010,106,698	12,886,992,076	8,897,593,858	511,769,423,869
Liabilities	¢ 50,714,147,662	2,422,048,113	1,188,260,054	1,375,684,720	444,443,608,280
Equity	¢ 15,715,746,504	14,588,058,585	11,698,732,022	7,521,909,138	67,325,815,589
Income for the year	¢ 1,631,345,498	1,619,963,414	2,484,065,560	4,818,352,596	3,297,830,863
Memoranda accounts	¢ 1,111,429,293,217	2,546,790,872,491	682,701,900,813	-	-

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	2,239,475,709,787	-	-

(2) Basis of accounting

(a) Basis of accounting

The consolidated financial statements of the Bank and its subsidiaries (the Conglomerate) 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 Directive 6-18 *Regulation on Financial Information* (RFI), the regulatory basis of accounting is updated in order to make progress in the adoption of International Financial Reporting Standards (IFRS). It also includes a single body of regulations, provisions regarding the remission, presentation and publication of financial statements, providing more uniformity in the actions of the superintendencies, as well as preventing duplications.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Basis of measurement

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

Loans, accounts receivable and deposits are initially recognized on the date on which they are originated. All other financial assets (including assets at FVTPL) are initially recognized on the transaction date, the date on which the Conglomerate commits to purchase or sell an instrument.

(3) Functional and presentation currency

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

(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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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, 2023, is related to the impairment of financial instruments.

(i) Fair value measurement

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

(5) Material 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2023, the Bank holds 49% ownership interest in Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA), a Panamanian entity.

Changes in the Bank's 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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, 2023, assets and liabilities in US dollars are valued at the exchange rate of ¢526.88 to US\$1.00 (2022: ¢601.99 to US\$1.00), which is the reference selling rate established by BCCR.

As of December 31, 2023, assets and liabilities denominated in euro are valued at the exchange rate of ¢582.31 to €1.00 (2022: ¢642.38 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, assets and liabilities denominated in Development Units (DU) were valued at the exchange rate of ¢1,013.32 to DU1.00 (2022: ¢1,028.84 to DU1.00). This exchange rate is based on the DU value tables published by SUGEVAL.

iv. Foreign operations

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

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

(i) 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 FVTPL, transactions costs that are directly attributable to its acquisition or issue.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Classification and subsequent measurement

Financial assets

Classification

On initial recognition, a financial asset is classified as measured at: amortized cost, FVOCI or FVTPL, according to the business model under which it is managed and the characteristics of the contractual cash flows.

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

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

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

All financial assets not classified as measured at amortized cost or FVOCI, as described above, are measured at FVTPL.

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

Business model assessment

The Conglomerate makes an assessment of the objective of a business model in which an 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 in prior periods, the reason for such sales and its expectations about future sales activity.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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 profit margin.

In assessing whether the contractual cash flows are SPPI, 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 the assessment, the Conglomerate considers:

- contingent events that would change the amount and timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension terms;
- 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 SPPI 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

Financial liabilities

Classification

Financial liabilities are classified as measured at amortized cost or FVTPL.

A financial liability is classified as at FVTPL if it is classified as held for trading or it is designated as such on initial recognition.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Subsequent measurement and gains and losses

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

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

(iii) Impairment of financial assets

The Conglomerate recognizes loss allowance for ECL on the following assets that are not measured at FVTPL:

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

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

Forward-looking information

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

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 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 sum of 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(d) Derivative financial instruments

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

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

(e) Embedded derivatives

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

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

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate currently has the following derivative financial instruments:

i. 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. On November 1, 2023, this issue matured, in conformity with that set forth in the contract; therefore, the issue, interest, valuation and other corresponding items were settled, thus complying with the established maturity of the bond and corresponding hedging instruments.

ii. 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.

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(f) Cash and cash equivalents

Cash and cash equivalents include demand deposits in other banks and deposits in BCCR with original maturities of three months or less from the date of acquisition 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.

(g) 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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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

(h) 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.

(i) 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(i) As a lessee

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

(j) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The 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.

(k) 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, 2023, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

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

The provisions of Article 22 of SUGEF Directive 9-20 *Regulations to Authorize and Execute Operations with Foreign Exchange Derivatives* are to be applied in calculating the allowance for clearing price risk in respect of each customer or counterparty. For such purposes, the capital requirement adjusted for clearing price risk (as defined in Article 28 of SUGEF Directive 3-06 *Regulations on Capital Adequacy of Financial Entities*) must be multiplied by the respective allowance percentage corresponding to the borrower rating included in SUGEF Directive 1-05.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(m) 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.

(n) Assets held for sale

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

Assets held for sale are valued at the lower of cost and market value. If market value is less than the cost booked in the accounting records, an impairment allowance must be booked for the 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Through Article 16 of CONASSIF Directive 06-18 and Article 72 of IRNBS (Law No. 1644), the extension of the term from 24 months to 48 months is established, 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.

(o) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(p) 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.

(q) 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) *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.

(iii) *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.

(iv) *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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(v) *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 and in conformity with official communication DDH-1188-202 dated August 10, 2022, issued by the Human Resources Department, the amount has been provisioned.

(vi) *Defined contribution plans*

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

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

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Notes to the Consolidated Financial Statements

(vii) *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.

(viii) *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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

(ix) *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% (2022: 5%) of total wages to strengthen the Fund; and
- income from investments made by the Fund and other potential income.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 the last motion by the fund received in September 2023, and it 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, public entities of the Telecom Sector and Instituto Costarricense de Turismo (ICT).

(r) 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.

(s) Legal reserve

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

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Notes to the Consolidated Financial Statements

Other statutory reserves

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

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

(t) 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).

(u) Income tax

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

i. *Current tax*

Current tax comprises the expected tax payable or receivable on taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii. *Deferred tax*

Deferred tax is recognized using the 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.

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

iii. *Tax benefits - FOCREDE*

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

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

(v) Segment reporting

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(x) Recognition of income and expenses

i. Interest income and interest expense

Interest income and interest expense are recognized in the consolidated statement of comprehensive income on an accrual basis. Interest income and interest expense include amortization of any premium or discount during the term of the instrument until maturity.

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

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

As of December 31, 2023, allowances booked amount to ¢10,365. According to the plan for accrued interest receivable, the allowance to be booked amounts to ¢22,396 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.

<u>Semester</u>	<u>Minimum allowance percentage of the balance of accrued interest receivable over 180 days</u>	<u>Minimum allowance required</u>
2024-06	56%	12,542
2024-12	70%	15,677
2025-06	85%	19,036
2025-12	100%	22,396

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii. *Income from foreign currency exchange and arbitrage*

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

iv. *Operating lease expenses*

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

(y) Statutory allocations

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

Under Article 12 of IRNBS, the net earnings of commercial State-owned banks are allocated as follows: 50% to a legal reserve; 10% to increase the capital of INFOCOOP; and the remainder to increase the Bank's capital, pursuant to Article 178 of the *Cooperative Associations Law* (Law No. 4179).

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

In accordance with Article 46 of the *National Emergency and Risk Prevention Act* (Law No. 8488), all institutions of the central administration and decentralized public administration, as well as State-owned entities, must contribute three percent (3%) of their reported earnings before taxes and statutory allocations and of their accumulated budget surplus to CNE. Such funds are deposited in the National Emergency Fund to finance the National Risk Management System.

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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.

(z) Development Financing Fund (FOFIDE)

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

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

(aa) Development Credit Fund (FOCREDE)

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

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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 36 of Law No. 8634, State-owned Managing Banks may channel second-tier banking services with FOCREDE funds through placements made to associations, cooperatives, microfinancing entities, foundations, non-governmental organizations, producer organizations or other formal entities, except for private banks, provided that the purposes and beneficiaries established in the law are met and such entities are duly authorized by the Governing Board.
- c. The term of the agreement is five years, renewable for equal and successive periods, unless a written order by the Governing Board provides otherwise and is notified at least three months in advance. If a lack of capacity and competence is proven by the Managing Banks, this agreement may be terminated under paragraph j) Article 14 of Law No. 8634 and amendments thereto.

(bb) 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 financial statements. Fee and commission income derived from trust management is recognized on an accrual basis.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

The Bank has established the following credit risk management procedures:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Direct loan portfolio		Stand-by credits	
	2023	2022	2023	2022
<i>Loan portfolio</i>				
Principal	¢ 4,958,319,194,434	4,705,656,050,771	342,588,807,184	342,809,334,409
Accounts and accrued interest receivable	90,753,414,848	102,173,613,358	-	-
Gross carrying amount	5,049,072,609,282	4,807,829,664,129	342,588,807,184	342,809,334,409
Incremental direct costs related to loans	6,360,771,801	5,755,898,412	-	-
Deferred income from loan portfolio	(48,113,222,075)	(41,927,136,381)	-	-
Allowance for loan losses (accounting records)	(129,801,051,027)	(139,365,727,145)	(1,084,106,020)	(1,186,743,415)
Net carrying amount	¢ 4,877,519,107,981	4,632,292,699,015	341,504,701,164	341,622,590,994
	Direct loan portfolio		Stand-by credits	
	2023	2022	2023	2022
Loan portfolio				
Total balances:				
0	¢ 49,062,639,515	37,840,006,906	-	-
A1	3,964,603,942,758	3,696,255,489,924	334,482,868,294	317,797,234,847
A2	14,890,104,071	58,680,008,946	336,634,950	1,328,281,001
B1	581,298,498,367	485,258,579,792	3,891,610,736	5,510,300,363
B2	7,514,128,128	17,191,173,454	22,872,611	90,427,343
C1	128,703,597,019	129,808,059,799	2,687,091,740	1,678,542,885
C2	8,152,930,274	18,398,551,481	17,306,451	79,055,604
D	160,592,316,671	176,816,506,996	518,105,813	836,617,671
E	134,254,452,479	187,581,286,831	632,316,589	15,488,874,695
	5,049,072,609,282	4,807,829,664,129	342,588,807,184	342,809,334,409
Structural allowance (subledger – database)	(95,417,856,415)	(99,619,383,824)	(36,847,389)	(321,036,394)
Net carrying amount	¢ 4,953,654,752,867	4,708,210,280,305	342,551,959,795	342,488,298,015
Individually assessed loans with allowance:				
0	¢ 48,244,490,219	36,830,632,028	-	-
A1	3,964,499,255,843	3,694,627,625,082	12,144,393,910	23,096,400,387
A2	14,890,104,071	58,680,008,946	-	27,692,856
B1	581,298,498,367	484,967,309,310	1,022,953,423	917,072,167
B2	7,514,128,128	17,191,173,454	-	-
C1	128,703,597,019	129,808,059,799	22,279,450	29,376,340
C2	8,152,930,274	18,398,551,481	-	1,555,624
D	160,592,316,671	176,816,506,996	26,344,000	-
E	134,254,452,479	187,581,286,831	40,000,000	14,351,743,266
	5,048,149,773,071	4,804,901,153,927	13,255,970,783	38,423,840,640
Structural allowance (subledger – database)	(95,417,856,415)	(99,619,383,824)	(36,847,389)	(321,036,394)
Net carrying amount	¢ 4,952,731,916,656	4,705,281,770,103	13,219,123,394	38,102,804,246

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	Direct loan portfolio		Stand-by credits	
	2023	2022	2023	2022
Current loan portfolio, without allowance:				
0	818,149,296	1,009,374,879	-	-
A1	104,686,915	1,627,864,842	322,338,474,383	294,700,834,460
A2	-	-	336,634,950	1,300,588,145
B1	-	291,270,481	2,868,657,314	4,593,228,196
B2	-	-	22,872,611	90,427,343
C1	-	-	2,664,812,290	1,649,166,545
C2	-	-	17,306,451	77,499,980
D	-	-	491,761,813	836,617,671
E	-	-	592,316,589	1,137,131,429
Carrying amount	922,836,211	2,928,510,202	329,332,836,401	304,385,493,769
Gross carrying amount	¢ 5,049,072,609,282	4,807,829,664,129	342,588,807,184	342,809,334,409
Allowance for loan losses (database)	(95,417,856,415)	(99,619,383,824)	(36,847,389)	(321,036,394)
Allowances for other statutory requirements	(34,383,194,612)	(39,746,343,321)	(1,047,258,631)	(865,707,021)
Incremental direct costs related to loans	6,360,771,801	5,755,898,412	-	-
Deferred income from loan portfolio	(48,113,222,075)	(41,927,136,381)	-	-
Net carrying amount	¢ 4,877,519,107,981	4,632,292,699,015	341,504,701,164	341,622,590,994
Restructured loans	¢ 61,949,398,743	39,016,262,887	-	-

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*:

	2023	
	Loans to customers	
	Gross	Net
0	¢ 49,062,639,515	47,781,619,496
A1	3,964,603,942,758	3,908,158,743,722
A2	14,890,104,071	14,757,458,652
B1	581,298,498,367	573,732,251,442
B2	7,514,128,128	7,380,677,571
C1	128,703,597,019	123,117,637,837
C2	8,152,930,274	7,509,770,903
D	160,592,316,671	143,319,719,708
E	134,254,452,479	93,513,678,923
	¢ 5,049,072,609,282	4,919,271,558,255

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		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
	¢	<u>4,807,829,664,129</u>	<u>4,708,210,280,305</u>

As shown above, as of December 31, 2023, the gross portfolio amounts to ¢5,049 billion. Of that amount, 91.45% is classified in risk ratings “A+B” and 8.55% in risk ratings “C+D+E” (2022: ¢4,808 billion, of which 89.34% is classified in risk ratings “A+B” and 10.66% in risk ratings “C+D+E”).

Through Letter SGF-0506 dated March 11, 2022, SUGEF communicated the new CONASSIF Directive 14-21 *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 Bank must submit quarterly impact reports with the following cut-off dates:

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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Individually assessed loans with allowance:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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- c. Refinanced loan: Loan operation in which at least one payment of principal or interest is made fully or partially with another loan operation extended to the borrower or to an individual from its economic interest group by the same financial intermediary or any other company of the same financial group or conglomerate. In the event of full settlement of the loan, the new loan operation is considered to be refinanced. In the event of partial settlement, both the new and existing loan operations are considered to be refinanced.

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

Transition Provision XXIII of SUGEF Directive 1-05 *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.

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.

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

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

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

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

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

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

When a supervised entity acquires a loan portfolio from entities within its own business group, it may request authorization from SUGEF to improve the risk rating of the borrower before the established term of 90 days, for which SUGEF must confirm the proposed category in order to issue the authorization. If, before having a special loan operation, the borrower was classified in risk ratings C2 or D, the borrower must be classified in risk rating C2 or D, respectively, or a higher risk rating, for at least 180 days.

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

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

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

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

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

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

Loan write-off policy:

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

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:

Borrower classification	Direct		Stand-by	
	2023	2022	2023	2022
Group 1	¢ 2,629,290,179,664	2,532,873,371,471	22,536,400,901	46,018,326,296
Group 2	2,419,782,429,618	2,274,956,292,658	320,052,406,283	296,791,008,113
	<u>¢ 5,049,072,609,282</u>	<u>4,807,829,664,129</u>	<u>342,588,807,184</u>	<u>342,809,334,409</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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. Based on CONASSIF communication CNS-1775/07, pursuant to the Bank's internal policies (arrears and historical payment behavior), borrowers in Group 2 are classified based on arrears and historical payment behavior:

- Group 1

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

- Group 2

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

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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%
A2	0%	0%
B1	5%	0.50%
B2	10%	0.50%
C1	25%	0.50%
C2	50%	0.50%
D	75%	0.50%
E	100%	0.50%

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Arrears</u>	<u>Specific allowance percentage - Uncovered portion</u>	<u>Specific allowance percentage - Covered portion</u>	<u>Creditworthiness (Group 1 borrowers)</u>	<u>Creditworthiness (Group 2 borrowers)</u>
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

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

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

In accordance with Article 11 bis of SUGEF Directive 1-05, at each month-end, the Bank must book the general allowance for a minimum of 0.50% of the total outstanding balance 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.

Without detriment to that indicated in the previous paragraph, according to SUGEF Directive 15-16 *Regulations on Credit Risk Management and Evaluation for the Development Banking System*, Article 11 establishes the use of the methodology to calculate general expected losses: for the total portfolio with arrears of 30 days or less, the percentages of 0.25% and 0.50% must be used for borrowers not exposed to currency risk (loans in national currency) and for borrowers exposed to currency risk (loans in foreign currency), respectively.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Starting in January 2024, Article 11 of SUGEF Directive 15-16 changes the weighting so that 0.25% will be applied to all loans subject to this regulation, regardless of the currency in which they were created.

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

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

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

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

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

	2023		
	<u>Allowance booked</u>	<u>Structural allowance</u>	<u>Difference in allowance</u>
Allowance for direct loans	¢ 109,830,774,732	(95,417,856,415)	14,412,918,317
Allowance for stand-by credits	1,084,106,020	(36,847,389)	1,047,258,631
Allowance plan per CNS-1698	<u>10,365,520,223</u>	<u>(10,365,520,223)</u>	<u>-</u>
	121,280,400,975	(105,820,224,027)	15,460,176,948
Counter-cyclical allowance per SUGEF Directive 19-16	<u>8,520,650,052</u>	<u>(8,520,650,052)</u>	<u>-</u>
	¢ <u>129,801,051,027</u>	<u>(114,340,874,079)</u>	<u>15,460,176,948</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		2022	
	Allowance booked	Structural allowance	Difference in 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

Counter-cyclical allowance

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

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

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

The Conglomerate no longer calculates data for uncollectible loans, given that SUGEF eliminated external communications SGF-2584-2020, SGF-3019-2020 and SGF-1939-2022 dated August 4, 2020, September 1, 2020 and September 26, 2022, respectively, in which it requested financial intermediaries to submit to SUGEF a plan for management of the loan portfolio and quarterly reports on the progress of that plan.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2023, the carrying amount of the allowance for impairment of assets held for sale and per legal requirements amounts to ¢62,186,753,305 (2022: ¢60,686,913,169).

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

Sector	Direct		Stand-by	
	2023	2022	2023	2022
Trade	¢ 379,227,581,567	351,908,579,098	-	-
Services	1,212,351,625,867	1,116,136,507,658	36,959,801,066	49,117,286,831
Financial services	81,789,773,732	110,315,914,766	-	-
Mining	359,420,175	407,792,324	-	-
Manufacturing and quarrying	165,180,121,959	181,724,162,837	-	-
Construction	60,320,273,818	63,532,421,052	-	-
Agriculture and forestry	114,313,701,230	106,690,835,957	-	-
Livestock, hunting and fishing	77,553,058,506	76,207,761,111	-	-
Electricity, water, sanitation and other related sectors	410,414,969,219	421,563,685,948	-	-
Transportation and telecommunications	39,516,426,282	42,530,110,900	-	-
Housing	1,523,023,351,385	1,479,874,999,951	-	-
Personal or consumer	711,573,741,970	579,698,591,510	305,513,772,783	293,573,614,230
Tourism	273,448,563,572	277,238,301,017	115,233,348	118,433,348
	¢ 5,049,072,609,282	4,807,829,664,129	342,588,807,197	342,809,334,409

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	Direct		Stand-by	
	2023	2022	2023	2022
Central America	¢ 5,049,072,609,282	4,807,829,664,129	342,588,807,197	342,809,334,409

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

Type of guarantee	Direct		Stand-by	
	2023	2022	2023	2022
Security	¢ 21,431,553,921	54,481,327,632	155,586,365	44,693,951
Mortgage bond	43,004,826,705	56,183,068	-	-
Assignment of loans	598,221,064,546	398,439,106,951	5,268,800	-
Mortgage	834,981,732,077	862,834,197,243	-	14,301,961,682
Surety	576,313,970,110	537,124,000,303	45,942,630	36,045,928
Trust	58,910,131,362	26,550,314,551	3,253,315	-
Securities	292,656,182,632	240,814,505,071	-	-
Chattel mortgage	907,192,723,942	956,113,953,336	342,356,046,372	328,267,078,022
Other	5,049,072,609,282	4,807,829,664,129	342,588,807,197	342,809,334,409

Guarantees:

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

The Bank conducts strict credit analyses before granting loans and requires guarantees from its borrowers before disbursing loans. As of December 31, 2023, 59.82% of the loan portfolio is secured by collateral guarantees (2022: 61.11%).

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Notes to the Consolidated Financial Statements

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

Loan portfolio concentration	Direct		Stand-by	
	2023	2022	2023	2022
¢1 to ¢3,000,000	¢ 162,996,393,710	145,113,049,518	125,107,759,607	98,919,837,520
¢3,000,001 to ¢15,000,000	632,609,187,194	558,880,462,902	181,065,985,271	193,128,816,480
¢15,000,001 to ¢30,000,000	541,732,635,608	480,005,803,941	4,798,952,099	6,505,980,282
¢30,000,001 to ¢50,000,000	498,148,643,726	494,927,077,925	2,175,012,247	2,924,191,643
¢50,000,001 to ¢75,000,000	498,589,076,699	476,541,411,564	1,919,576,362	2,830,183,045
¢75,000,001 to ¢100,000,000	298,684,768,711	277,137,739,749	1,998,672,293	1,125,951,824
¢100,000,001 to ¢200,000,000	274,384,336,070	255,327,795,242	3,173,802,375	5,203,247,146
More than ¢200,000,000	2,141,927,567,564	2,119,896,323,288	22,349,046,943	32,171,126,469
	¢ 5,049,072,609,282	4,807,829,664,129	342,588,807,197	342,809,334,409

As of December 31, 2023 and 2022, the direct and stand-by loans of the portion of the loan portfolio corresponding to economic interest groups amount to ¢658,210,040,686 and ¢602,633,374,501, respectively, equivalent to 13.02% and 12.53% of the loan portfolio, respectively.

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 ECL of the entire loan portfolio was from 2.66% in December 2022 to 2.59% in December 2023.

Compared to the results from December 2022, the behavior of ECL for economic activities showed a mixed result (increases and decreases), but with a predominant downward trend. The activities with the largest decreases are Transport, Construction and Agriculture, with decreases exceeding 73 basis points (bps), while the activity with the largest increase is Mining, with a variation of 68 bps.

For the result of the VaR of the loan portfolio, there was a year-on-year increase from 7.41% to 7.97%, which is an expected behavior given the variations in the portfolio balance by type of sector.

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 Investment Fund Manager will fail to discharge an obligation, fully and on time, in accordance with the terms and conditions agreed upon at the time the financial asset was acquired.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

With the entrance into effect of 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Portfolio		2023	2022
Investments in financial instruments at FVOCI	¢	28,922,885	70,958,690

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Brokerage Firm may acquire the following instruments:

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

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

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

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

For the December 2023 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 88.38% and 11.62% in US dollars.

With respect to the consolidated portfolio, investments in instruments issued by the Government of Costa Rica correspond to 88.36% and BNCR 0.02%. The sum of these issuers represents 88.38% of the consolidated portfolio in colones. The portfolio in US dollars is represented by G issues 11.48% and BNSFI 0.14%, for a total of 11.62%.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Portfolio		2023	2022
Investments measured at FVOCI	¢	9,199,430	32,558,524
Investments measured at amortized cost	¢	179,328,410	307,132,449

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:

		2023	2022
Investments measured at FVOCI	¢	36,332,070	85,026,601
Investments measured at amortized cost	¢	2,730,629	-

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

v. BN Corredora de Seguros, S.A.

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

Credit risk management

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

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

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

Portfolio		2023	2022
Investments measured at amortized cost	¢	6,785,490	13,890,408

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate has a classification of its instruments aligned with the three business models defined and updated as of the third quarter of 2023. The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at FVOCI. For instruments measured at FVTPL, expected credit losses are not calculated for impairment of the issuer's credit.

Instruments classified under model 1 (measured at amortized cost) are held to collect contractual cash flows and give rise to cash flows that are SPPI.

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

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

		2023		
Month		Model 1 Amortized cost	Model 2 FVOCI	Total estimated losses
January	¢	2,841,757,301	2,760,888,014	5,602,645,315
February	¢	2,600,821,134	2,725,373,887	5,326,195,021
March	¢	2,583,218,359	2,961,243,082	5,544,461,441
April	¢	2,553,631,109	3,687,351,413	6,240,982,522
May	¢	2,314,094,884	4,328,699,921	6,642,794,805
June	¢	2,394,295,085	3,899,757,092	6,294,052,177
July	¢	2,615,773,114	3,995,474,713	6,611,247,827
August	¢	2,560,393,715	3,551,187,195	6,111,580,910
September	¢	2,984,079,155	3,630,489,940	6,614,569,095
October	¢	2,315,041,364	2,967,118,625	5,282,159,990
November	¢	1,259,518,242	1,600,015,146	2,859,533,387
December	¢	1,416,262,629	1,409,951,769	2,826,214,397

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Month		2022		
		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

Starting in November 2023, an adjustment was made to the methodology for the calculation of the loss allowance on investment portfolios. These adjustments mainly include calibrating the probability of default (PD) and of the EAD component.

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.

		2023	
		Stage 1	Total
	12-month PD ranges 0.21% to 1.75%		
Investments at amortized cost (1)	¢	787,920,956,099	787,920,956,099
Allowance		(1,416,262,629)	(1,416,262,629)
	¢	<u>786,504,693,470</u>	<u>786,504,693,470</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		2022	
	12-month PD ranges	Stage 1	Total
	0.34% to		
Investments at amortized cost	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

(1) The classification of investments by type of instrument and their corresponding risk classification is detailed in Note 10 Financial Instruments.

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

		2023	
	12-month PD ranges	Stage 1	Total
	0.19% to		
Investments at FVOCI (1)	1.75%	¢ 557,199,687,781	557,199,687,781
Allowance		(1,409,951,768)	(1,409,951,768)
		¢ 555,789,736,013	555,789,736,013

		2022	
	12-month PD ranges	Stage 1	Total
	0.24% to		
Investments at FVOCI (1)	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

(1) The classification of investments by type of instrument and their corresponding risk rating is detailed in Note 10 Financial Instruments.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2023	
		Stage 1	Total
Investments in financial instruments at FVTPL	¢	4,479,693,009	4,479,693,009
	¢	<u>4,479,693,009</u>	<u>4,479,693,009</u>
		2022	
		Stage 1	Total
Investments in financial instruments at FVTPL	¢	4,057,391,271	4,057,391,271
	¢	<u>4,057,391,271</u>	<u>4,057,391,271</u>

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

		2023	
		Absolute	Relative
Colones	¢	2,666,224,011	51.30%
US dollars		475,433,574	8.88%
	¢	<u>3,141,657,585</u>	<u>60.15%</u>
		2022	
		Absolute	Relative
Colones	¢	4,061,719,794	34.57%
US dollars		1,694,091,701	5.84%
	¢	<u>5,755,811,495</u>	<u>40.41%</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Country	2023		
	Principal	Interest	Total
Costa Rica	1,008,798,073,937	19,805,674,719	1,028,603,748,656
Panama	4,215,040,000	105,984,841	4,321,024,841
Caribbean	528,127,520	5,708,745	533,836,265
United States	322,488,920,995	1,679,404,373	324,168,325,367
Canada	3,329,886,142	37,270,859	3,367,157,001
Europe	28,298,404,924	246,262,295	28,544,667,219
Asia	834,016,872	4,594,241	838,611,113
New Zealand	293,546,882	2,188,017	295,734,899
	¢ 1,368,786,017,272	21,887,088,090	1,390,673,105,362

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

Key inputs for the measurement of ECL under IFRS 9

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Definition of ratings

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

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

- Equivalence of international ratings:

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- Equivalence of local ratings (Ceiling test)

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

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

Amounts arising from 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Criteria for significant increase in credit risk (Stage 2)

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

At each reporting date, an entity shall assess whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, an entity shall use the change in the risk 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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Segmentation

IFRS 9 allows the Bank 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.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

• *Allowance for expected credit losses*

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

		Stage 1	Total
<u>Investments at amortized cost</u>			
Balance as of December 31, 2022	¢	2,930,192,806	2,930,192,806
Update of the allowance		12,056,684	12,056,684
Allowance for new investments		906,042,655	906,042,655
Decrease in allowance		(2,432,029,516)	(2,432,029,516)
Balance as of December 31, 2023	¢	<u>1,416,262,629</u>	<u>1,416,262,629</u>
		Stage 1	Total
<u>Investments at FVOCI</u>			
Balance as of December 31, 2022	¢	2,670,857,408	2,670,857,408
Update of the allowance		(84,280,932)	(84,280,932)
Allowance for new investments		2,158,369,841	2,158,369,841
Decrease in allowance		(3,334,994,549)	(3,334,994,549)
Balance as of December 31, 2023	¢	<u>1,409,951,769</u>	<u>1,409,951,769</u>

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

		Stage 1	Total
<u>Investments at amortized cost</u>			
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	¢	<u>2,930,192,806</u>	<u>2,930,192,806</u>
		Stage 1	Total
<u>Investments at FVOCI</u>			
Balance as of December 31, 2022	¢	3,565,890,660	3,565,890,660
Update of the allowance		(6,016,141)	(6,016,141)
Allowance for new investments		507,213,620	507,213,620
Decrease in allowance		(1,396,230,731)	(1,396,230,731)
Balance as of December 31, 2022	¢	<u>2,670,857,408</u>	<u>2,670,857,408</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Liquidity risk

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

i. Banco Nacional de Costa Rica

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

LCR results are compared with the risk appetite limit approved by the General Board of Directors, which was set at 130% for the LCR in colones and in US dollars. The LCR indicator at the December 2022 and 2023 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 closed at 181% as of the December 2023 close, which is 4% higher than the previous year, related to a 15% increase of in the stock of liquid assets (HQLA) (¢193,600 million, mainly in government instruments, which was offset by the 17% increase in net cash outflows (¢121,050 million, mainly in wholesale commitments). The LCR indicator remains considerably below the appetite level at 130%, equivalent to ¢367,700 million.

As of December 31, 2023, the LCR indicator in US dollars closed at 229%, showing a significant increase of 36% with regard to the previous year (2022: 265%). This was due to a 24% decrease in HQLA (-US\$319 million, mainly in Level 1A cash and due from banks abroad and Level 2A investments), which had a greater impact than the 7% decrease in net outflows (-US\$42 million, mainly due to less wholesale and retail commitments). The LCR indicator is considerably above the appetite level of 130%, equivalent to US\$570 million.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>LCR indicator</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>	<u>Level</u>
In colones	181%	185%	-4%	Appetite
In US dollars	229%	265%	-36%	Appetite

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, the terms of the Conglomerate's assets and liabilities denominated in local currency are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	189,543,517,472	-	-	-	-	-	189,543,517,472
Minimum legal deposit in BCCR		-	395,506,774,234	44,538,089,460	22,021,403,049	24,199,855,941	54,676,138,709	52,325,524,542	629,487,390,592
Investments		-	3,380,204,694	74,419,923,890	10,808,211,785	3,062,286,482	25,770,260,909	48,399,098,407	962,953,460,084
Loan portfolio		220,130,821,795	-	51,675,951,465	37,956,229,675	50,421,561,665	101,126,568,738	147,921,863,938	3,721,621,800,819
Recovery of assets	¢	220,130,821,795	588,430,496,400	170,633,964,815	70,785,844,509	77,683,704,088	181,572,968,356	248,646,486,887	5,503,606,168,967
Obligations with the public	¢	-	2,973,736,854,474	141,665,793,831	155,532,338,241	206,411,342,420	333,983,337,344	315,508,239,485	4,365,084,488,989
Obligations with BCCR		-	-	-	-	-	-	-	144,471,880,512
Obligations with financial entities		-	50,317,851,595	116,973,079,334	20,899,340,647	10,536,082,019	25,581,612,150	10,349,269,404	273,540,476,508
Charges payable		-	24,462,877,737	6,599,398,896	5,041,856,231	2,440,045,206	6,667,525,382	1,705,994,026	51,240,293,690
Maturity of liabilities	¢	-	3,048,517,583,806	265,238,272,061	181,473,535,119	219,387,469,645	366,232,474,876	327,563,502,915	4,834,337,139,699
Difference	¢	220,130,821,795	(2,460,087,087,406)	(94,604,307,246)	(110,687,690,610)	(141,703,765,557)	(184,659,506,520)	(78,917,016,028)	669,269,029,268

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

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	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	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	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	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	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	3,915,211,392,055
Obligations with BCCR		-	-	-	-	-	-	-	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	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	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	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)	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, 2023, the terms of the Conglomerate's assets and liabilities denominated in foreign currency, expressed in local currency, are matched as follows:

		Days							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
Cash and due from banks	¢	-	312,993,874,315	-	-	-	-	184,034,882	313,177,909,197
Minimum legal deposit in BCCR		-	208,813,615,736	10,802,845,764	8,799,875,689	8,266,203,790	20,027,199,420	23,744,666,295	297,153,597,055
Investments		-	90,586,305	63,691,795,436	66,776,181,098	33,845,147,112	69,090,848,490	8,124,346,052	428,084,006,416
Loan portfolio		78,133,453,640	-	11,878,873,691	12,143,459,939	13,067,804,804	70,913,178,596	81,127,092,515	1,285,698,358,189
Recovery of assets	¢	78,133,453,640	521,898,076,356	86,373,514,891	87,719,516,726	55,179,155,706	160,031,226,506	112,996,104,862	2,324,113,870,857
Obligations with the public	¢	-	1,463,788,203,201	67,093,986,641	61,392,810,726	47,277,187,022	137,222,653,073	137,798,200,135	2,026,998,035,960
Obligations with financial entities		-	10,435,259,867	74,928,076,637	11,169,856	15,806,400	5,166,335,539	2,442,392,668	178,549,686,347
Charges payable		-	5,865,048,108	1,379,072,783	843,598,406	808,408,317	1,825,497,422	1,185,602,463	596,425,221
Maturity of liabilities	¢	-	1,480,088,511,176	143,401,136,061	62,247,578,988	48,101,401,739	144,214,486,034	141,426,195,266	2,218,051,375,027
Difference	¢	78,133,453,640	(958,190,434,820)	(57,027,621,170)	25,471,937,738	7,077,753,967	15,816,740,472	(28,430,090,404)	106,062,495,830

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							Total
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	
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	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	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	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	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	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	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
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	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	144,638,707,101

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

c) Market risk

i. Banco Nacional de Costa Rica

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

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

<u>Indicator</u>	<u>Limit</u>	<u>Level</u>
Consolidated VaR	2.80%	Appetite
Currency risk	3.00%	Appetite
Interest rate risk – colones	1.20%	Appetite
Interest rate risk – foreign currency	1.00%	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:

<u>Currency</u>	<u>Face value of investments by currency</u>		
	<u>2023</u>	<u>2022</u>	<u>Variation</u>
Colones	975,765,431,253	642,587,522,000	975,765,431,253
US dollars - local issuers	107,801,526	215,789,246	107,801,526
US dollars - international issuers	691,667,000	1,000,615,000	691,667,000

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

<u>Currency</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>
Colones	1.39	0.70	0.69
US dollars - local issuers	0.92	1.30	0.39
US dollars - international issuers	0.88	0.89	(0.01)

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
VaR indicator (99%)	0.36	0.99%

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

From November 2022, a total VaR of price and rates is calculated, which includes the VaR of fixed-income instruments and the VaR of variable-income instruments, using methodologies approved for consolidation and estimation of the total VaR, considering the total financial instruments of the investment portfolio.

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 of the market value of investments increased during the last year. For the last twelve months until December 2023, this indicator continued to have mixed behavior with an upward trend during the first half of the year, remained relatively stable until the end of September and started having higher volatility towards the end of the year, with an annual average VAR of 0.55%. A number of factors explain the behavior of the VaR during the last year, including higher volatility in the prices of instruments in the investment portfolio and greater exposure to instruments by the Government of Costa Rica.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

<u>Type of risk</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>
Consolidated VaR	0.36%	0.43%	(0.07%)

As of December 31, the results of the individual VaR by currency of the market value at the December 2023 close and the variation with respect to the same period of the previous year are as follows:

<u>Currency</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>
Colones	0.44%	0.58%	(0.14%)
US dollars - local	0.54%	0.29%	0.25%
US dollars - international	0.31%	0.55%	(0.24%)

- Interest rate risk

Interest rate risk is the risk of variations in the brokerage margin 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 24-22 *Regulations for Qualifying Supervised Entities* and reports monthly on its performance to the Bank's Corporate Risk Committee. As of December 31, interest rate risk is as follows:

<u>Type of risk</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>	<u>Level</u>
Interest rate risk in colones	0.27%	0.12%	0.15%	Normal
Interest rate risk in foreign currency	0.01%	1.51%	(1.50%)	Normal

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, the interest rate terms for the Bank and its Subsidiaries' assets and liabilities are matched as follows (differences between the recovery of assets and the maturity of liabilities):

		Demand	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
<i>Local currency (LC)</i>									
Investments	¢	3,380,204,694	74,337,389,081	13,585,578,791	25,760,217,777	48,237,019,900	307,701,016,542	488,354,486,559	961,355,913,344
Loan portfolio		-	3,148,433,823,869	126,669,179,583	120,820,025,358	17,161,234,664	17,933,298,676	116,129,337,773	3,547,146,899,923
Recovery of rate-sensitive assets LC (A)	¢	3,380,204,694	3,222,771,212,950	140,254,758,374	146,580,243,135	65,398,254,564	325,634,315,218	604,483,824,332	4,508,502,813,267
Obligations with the public	¢	-	232,986,986,565	392,784,559,742	366,232,474,877	326,307,297,119	154,077,828,137	96,863,804,221	1,569,252,950,661
Obligations with BCCR		-	41,635,000,000	-	-	-	147,461,417,065	125,644,412	189,222,061,477
Obligations with financial entities LC		-	121,505,894	-	-	-	-	28,146,736,964	28,268,242,858
Maturity of rate-sensitive liabilities LC (B)	¢	-	274,743,492,459	392,784,559,742	366,232,474,877	326,307,297,119	301,539,245,202	125,136,185,597	1,786,743,254,996
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	3,380,204,694	2,948,027,720,491	(252,529,801,368)	(219,652,231,742)	(260,909,042,555)	24,095,070,016	479,347,638,735	2,721,759,558,271
<i>Foreign currency (FC)</i>									
Investments	¢	-	56,946,479,746	107,233,629,278	69,232,968,250	8,124,346,043	115,299,103,131	71,119,015,816	427,955,542,264
Loan portfolio		-	1,091,880,903,388	40,664,921,171	23,783,476,848	2,614,747,782	21,846,348,813	62,171,383,829	1,242,961,781,831
Recovery of rate-sensitive assets FC (C)	¢	-	1,148,827,383,134	147,898,550,449	93,016,445,098	10,739,093,825	137,145,451,944	133,290,399,645	1,670,917,324,095
Obligations with the public	¢	-	145,294,243,469	107,558,991,136	143,995,934,350	141,050,479,192	48,649,271,767	108,388,075,682	694,936,995,596
Obligations with BCCR		-	7,623,953,600	-	-	-	-	-	7,623,953,600
Obligations with entities		-	-	-	218,551,684	-	-	42,150,400,000	42,368,951,684
Maturity of rate-sensitive liabilities FC (D)	¢	-	152,918,197,069	107,558,991,136	144,214,486,034	141,050,479,192	48,649,271,767	150,538,475,682	744,929,900,880
Difference in FC, recovery of assets less maturity of liabilities (C - D)	¢	-	995,909,186,065	40,339,559,313	(51,198,040,936)	(130,311,385,367)	88,496,180,177	(17,248,076,037)	925,987,423,215
Recovery of rate-sensitive assets 1/ (A + C)	¢	3,380,204,694	4,371,598,596,084	288,153,308,823	239,596,688,233	76,137,348,389	462,779,767,162	737,774,223,977	6,179,420,137,362
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	-	427,661,689,528	500,343,550,878	510,446,960,911	467,357,776,311	350,188,516,969	275,674,661,279	2,531,673,155,876
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,380,204,694	3,943,936,906,556	(212,190,242,055)	(270,850,272,678)	(391,220,427,922)	112,591,250,193	462,099,562,698	3,647,746,981,486

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2022, the interest rate terms for the Bank and its Subsidiaries' 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
<u>Local currency (LC)</u>									
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
<u>Foreign currency (FC)</u>									
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

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 total VaR of price and rates of the Pension Fund Manager's own funds has an increasing trend, with a maximum of 4.91% and a minimum of 0.69% for an average of 2.25%, equivalent to ₡311.16 million. As of December 31, 2023, the indicator closed at 0.88% (2022: 4.93%), showing an increase due to the higher volatility observed in the prices of the instruments in the investments portfolio.

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.

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

Notes to the Consolidated Financial Statements

d) Currency risk

Pursuant to SUGEF Directive 24-22, an entity faces currency risk when the value of its assets and liabilities in foreign currency is affected by exchange rate variations and the amounts of the corresponding assets and liabilities are mismatched.

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

i. Banco Nacional de Costa Rica

The 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 as of December 2023; prior to that date it was always in the appetite threshold. The indicator has decreased significantly, which is an expected behavior due to the lower exchange rate (appreciation of the colon in relation to the US dollar) during the fourth quarter of 2023.

<u>Type of risk</u>	<u>2023</u>	<u>2022</u>	<u>Variation</u>	<u>Level</u>
Currency risk	1.28%	2.74%	-1.46%	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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

<u>Internal currency risk</u>	<u>2023</u>	<u>2022</u>	<u>Level</u>
5th percentile	0.06%	0.34%	Normal
95th percentile	0.16%	0.49%	Normal

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

	<u>US dollars</u>	
	<u>2023</u>	<u>2022</u>
<u>Assets:</u>		
Cash and due from banks	US\$ 1,106,303,037	1,148,562,027
Investments in financial instruments	795,569,363	1,232,847,287
Loan portfolio	2,384,908,929	2,025,597,121
Accounts and accrued interest receivable	507,324	481,986
Investments in other companies	127,782,067	121,789,525
Property, furniture and equipment	-	443,031
Other assets	2,547,290	1,955,077
	US\$ <u>4,417,618,010</u>	<u>4,531,676,054</u>
<u>Liabilities:</u>		
Obligations with the public	US\$ 3,822,760,371	3,591,546,305
Obligations with entities	334,512,307	643,881,571
Subordinated obligations	112,104,804	114,467,301
Accounts payable and provisions	11,487,835	15,496,818
Other liabilities	15,182,060	18,780,287
	US\$ <u>4,296,047,377</u>	<u>4,384,172,282</u>
Excess of assets over liabilities in US dollars	US\$ <u>121,570,633</u>	<u>147,503,772</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

		Euro	
		2023	2022
<u>Assets:</u>			
Cash and due from banks	€	46,019,914	55,640,536
	€	46,019,914	55,640,536
<u>Liabilities:</u>			
Obligations with the public	€	42,971,342	54,312,812
Obligations with entities		1,221,293	1,363,523
Accounts payable and provisions		14,141	3,017
Other liabilities		1,284,388	9,000
	€	45,491,164	55,688,352
Excess (deficit) of assets over liabilities in euro	€	528,750	(47,816)
		DU	
		2023	2022
<u>Assets:</u>			
Loan portfolio		(181,648)	39,256
	UD	(181,648)	39,256
<u>Liabilities:</u>			
Accounts payable and provisions	UD	15,341	24,450
	UD	15,341	24,450
Deficit (excess) of assets over liabilities in DU	UD	(196,989)	14,806

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.

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:

		2023	2022
Gain on foreign exchange differences	¢	493,075,698,608	623,748,671,770
Loss on foreign exchange differences		(491,833,073,316)	(624,361,789,730)
Net gain	¢	1,242,625,292	613,117,960

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	2023	2022
Gain on net valuation of other assets (Note 42)	¢ 698,955,881	577,749,420
Loss on net valuation of other liabilities	(1,275,069,483)	(282,117,584)
Net (loss) gain	¢ (576,113,602)	295,631,836

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2023, the Pension Fund Manager's exposure to currency risk, considering its net assets in US dollars, was 11.98% (¢1,737.74 million) of total net assets, representing an increase in comparison to December 31, 2022, where it closed at 9.76% (¢1,151.93 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, 2023			
1%	2%	(1)%	(2)%
2,500,000	5,000,000	(2,500,000)	(5,000,000)
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)

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, an increase of 5% in the exchange rate of the functional currency with respect to the US dollar would generate a loss of ¢86.89 million (2022: ¢57.6 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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



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 litigation risk, the Conglomerate applies a model that permits estimating the expected losses and VaR of lawsuits, considering the expert opinion of the legal counsel, the subject matter of the cases when calculating the probability of an unfavorable ruling and a continuous model for the duration of the lawsuits. This model provides a direct estimate of the duration of each lawsuit in the corresponding court and the possible outcomes.

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- **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:

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- 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.

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 held for sale 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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, the results of the VaR by legal risk for the Pension Fund Manager correspond to an estimate of the provision for pending litigation in the amount of ¢36,110,512 that covers the lawsuits against the Pension Fund Manager, out of four 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 Risk Management Area provides 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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.

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

From January 1, 2007, in order to comply with the disclosure of objectives, policies and procedures for managing capital and quantitative information. The Bank 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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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, indicators, budget execution and capital adequacy.

As of December 31, 2023 and 2022, the Conglomerate's CAR is above the minimum level required by applicable regulations, which indicates that capital levels are above the minimum required by laws and regulations.

Moreover, in applying 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).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(7) Collateralized or restricted assets

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

Restricted asset	Cause of restriction	2023	2022
<u>Cash and due from banks:</u>			
Checking account - colones (Note 9)	Minimum legal deposit	¢ 674,624,219,747	602,974,731,866
Checking account - US dollars (Note 9)	Minimum legal deposit	310,665,848,876	338,611,316,346
Checking account - euro (Note 9)	Minimum legal deposit	3,780,738,253	5,270,508,245
Other cash and due from banks (Note 9)	Margin calls – derivative financial instruments	-	22,409,216
Other cash and due from banks (Note 9)	Contingent guarantee of the deposit guarantee fund (FGD)	132,853,293,782	125,997,691,316
Other cash and due from banks (Note 9)	FOGABONA	184,034,892	166,176,025
		¢ 1,122,108,135,550	1,073,042,833,014
<u>Investments in financial instruments:</u>			
Investments in financial instruments	Liquidity market operations	¢ 62,550,320,611	45,872,694,079
Securities issued by BCCR and the Government	Investments securing repurchase agreements	2,922,590,178	2,306,487,720
Sovereign bond in USD	Bofa Swaps	-	1,181,869,342
Sovereign bond in USD	Nomura Bank guarantee	47,437,394,548	87,204,354,223
Sovereign bond in USD	BNY Mellon guarantee	42,196,961,996	-
Sovereign bond in USD	SINPE guarantee	23,610,825,591	219,986,936,563
Sovereign bond in USD Local TP USD	SINPE guarantee	-	2,789,019,670
		-	14,922,877,514
		¢ 178,718,092,924	374,264,239,111
<u>Other assets</u>			
Other assets (Note 17)	Security deposits	¢ 970,273,927	532,881,813

As of December 31, 2023, the Brokerage Firm has restricted assets in the amount of ¢62,550,320,611 (2022: ¢45,782,694,079), corresponding to guarantees for tri-party repurchase agreements, operations in the liquidity market and contributions to the liquidation and compensation risk management fund.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, the Pension Fund Manager has restricted assets in the amount of ¢2,922,590,178 (2022: ¢2,306,487,720) 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:

		2023	2022
<u>Assets:</u>			
Checking accounts in foreign financial entities (1) (Note 9)	¢	35,092,573,776	46,029,904,199
Investments in financial instruments and accrued interest receivable (2)		3,650,528,982	7,801,199,980
Investments in other companies (2)		66,225,192,279	73,265,452,967
	¢	<u>104,968,295,037</u>	<u>127,096,557,146</u>
<u>Liabilities:</u>			
Demand obligations with entities (3)	¢	14,005,187	44,277,901
Accounts due to related parties (4)		21,841,512	967,596
	¢	<u>35,846,699</u>	<u>45,245,497</u>
<u>Income:</u>			
Gain on investments in other foreign companies	¢	<u>3,298,387,922</u>	<u>1,952,980,119</u>
<u>Expenses:</u>			
Operating expenses (5)	¢	<u>211,152,634</u>	<u>44,171,143</u>

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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) *Compensation to key personnel*

As of December 31, compensation to key personnel is as follows:

	2023	2022
Short-term benefits	¢ 2,427,733,371	2,214,747,107
Long-term benefits	315,605,338	287,917,124
Per diem – Board of directors	124,301,695	126,607,460
	¢ <u>2,867,640,404</u>	<u>2,629,271,691</u>

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:

	2023	2022
Cash and due from banks	¢ 1,429,362,414,317	1,470,874,684,814
Investments with maturities of less than two months	<u>219,166,903,211</u>	<u>107,863,023,596</u>
	¢ <u>1,648,529,317,528</u>	<u>1,578,737,708,410</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
Cash on hand and in vaults	¢ 82,485,478,747	71,076,632,513
Cash in transit	20,232,690,853	49,869,760,013
Checking account in BCCR (1)	48,415,632,964	47,649,998,049
Minimum legal deposits in BCCR (2)	878,225,354,683	828,382,754,482
Checking accounts and demand deposits in State-owned commercial banks and banks created under special laws	208,831,452	216,788,828
Checking accounts and other demand accounts in private financial entities	577,900,183	488,049,608
Checking accounts in foreign financial entities	222,086,875,167	291,062,460,495
Deposits and other demand accounts in foreign financial entities	17,081,237	4,802,609
Checking accounts and demand deposits in related parties (Note 8)	35,092,573,776	46,029,904,199
Overnight deposits in foreign financial entities	1,187,797,197	2,460,374,162
Transfers through the Interbank Electronic Payment System (SINPE)	1,358,743,570	1,476,067,946
Local notes receivable	4,748,056,421	4,614,692,783
Foreign notes receivable	1,688,069,394	1,356,122,570
Margin calls – derivative financial instruments (Note 7)	-	22,409,216
Fondo de Garantía de la Bolsa Nacional de Valores (FOGABONA)	184,034,892	166,176,025
Contingent guarantee of the deposit guarantee fund (Fondo de Garantía de Depósitos, FGD)	132,853,293,781	125,997,691,316
	<u>¢ 1,429,362,414,317</u>	<u>1,470,874,684,814</u>

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (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.

As per note BCCR JD-6066/08 dated June 17, 2022, for December 2023 the percentage for the minimum legal deposit in colones will be applied as follows:

<u>Minimum legal deposit rates</u>
15%

(10) Investments in financial instruments

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

	<u>2023</u>	<u>2022</u>
Investments at FVTPL	¢ 23,521,412,984	24,433,857,502
Investments at FVOCI	614,745,008,391	585,704,089,628
Investments at amortized cost	730,519,651,898	840,653,764,944
	<u>¢ 1,368,786,073,273</u>	<u>1,450,791,712,074</u>
Interest rate futures – Hedges	¢ 81,481,170	4,185,715
Sale of FX futures - Other than hedges	282,823,967	12,227,870
Allowance for impairment of investments	(1,416,262,629)	(2,930,192,806)
Allowance for operations with derivatives other than hedges	(1,414,120)	-
Accrued interest receivable on investments	21,887,088,090	19,867,240,763
	<u>¢ 1,389,619,789,751</u>	<u>1,467,745,173,616</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) Investments at fair value through profit or loss

As of December 31, investments at FVTPL are as follows:

	2023	2022
<u>Local issuers</u>		
Private issuers	22,550,562,247	20,476,710,400
BCCR	970,850,737	-
¢	<u>23,521,412,984</u>	<u>20,476,710,400</u>
	2023	2022
<u>Foreign issuers</u>	-	
Private issuers	-	3,957,147,102
	-	3,957,147,102
¢	<u>23,521,412,984</u>	<u>24,433,857,502</u>

b) Investments at fair value through other comprehensive income

As of December 31, investments at FVOCI are as follows:

	2023	2022
<u>Local issuers</u>		
Government of Costa Rica	¢ 428,835,070,195	404,645,151,038
BCCR	83,911,118,412	13,252,898,512
Private issuers	2,922,590,178	2,306,487,720
¢	<u>515,668,778,785</u>	<u>420,204,537,270</u>
	2023	2022
<u>Foreign issuers</u>		
Governments	¢ 38,225,271,615	37,513,503,153
Private issuers	33,254,466,882	51,069,926,429
Private banks	27,596,491,109	76,916,122,776
	99,076,229,606	165,499,552,358
¢	<u>614,745,008,391</u>	<u>585,704,089,628</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Investments at amortized cost

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

		2023	2022
<u>Local issuers</u>			
Government of Costa Rica	¢	348,755,364,004	320,405,325,593
BCCR		119,790,981,728	73,797,417,371
State-owned banks		24,500,000	-
Private banks		-	12,461,193,000
Private issuers		1,037,092,659	4,325,361,390
	¢	<u>469,607,938,391</u>	<u>410,989,297,354</u>
<u>Foreign issuers</u>			
Governments	¢	250,382,013,856	402,225,250,075
Private issuers		8,947,102,750	3,074,135,134
Private banks		1,582,596,900	24,365,082,380
		<u>260,911,713,506</u>	<u>429,664,467,589</u>
	¢	<u><u>730,519,651,897</u></u>	<u><u>840,653,764,943</u></u>

As of December 31, 2023, the valuation of investments in financial instruments, including restricted financial instruments, gave rise to unrealized gains, net of deferred tax, in the amount of ¢13,142,311,960 (2022: unrealized losses, net of deferred tax, in the amount of ¢20,572,807,920). The cumulative balance of equity adjustments arising from the valuation of those investments is equivalent to unrealized losses of ¢3,630,927,342 (2022: unrealized losses of ¢9,511,384,618).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
<u>BCCR</u>		
B	2,148,226,594	87,700,862,520
B+	170,524,723,874	-
<u>State-owned banks</u>		
F1+	-	3,611,940,000
<u>Foreign private banks</u>		
A	1,505,691,104	15,947,430,505
A2	4,215,040,000	-
A-	11,783,156,069	18,835,855,917
A+	6,082,132,506	8,751,341,536
AA-	201,895,906	5,418,432,479
AAA	4,696,480,315	9,335,987,584
BBB	289,679,736	3,087,954,594
BBB-	-	4,405,018,542
BBB+	8,635,696,153	8,260,688,298
F3	-	7,705,472,000
P1	-	2,925,289,004
<u>Foreign private issuers</u>		
A	198,491,750	5,394,774,104
A-	4,956,240,279	11,795,522,072
A+	245,702,590	12,829,085,529
AA	279,089,010	2,811,732,843
AA-	298,548,670	1,778,668,182
AAA	-	1,198,953,167
BB+	3,380,204,694	175,932,618
BBB	18,309,659,426	26,751,790,905
BBB-	7,660,298,178	7,641,206,269
BBB+	6,976,021,044	16,130,016,034
<u>Local private issuers</u>		
B+	-	6,789,358,293
BB	15,263,063,032	13,544,186,077
BB-	3,778,656,909	-
<u>Government of Costa Rica</u>		
B	64,662,547,828	712,382,682,260
B2	11,148,610,067	11,159,049,529
B+	692,053,538,986	-
<u>Foreign governments</u>		
A	565,327,472	725,667,852
AA+	280,937,982,309	399,568,790,781
A1+	2,150,810,816	-
P1	-	23,688,409,085
<u>Unrated</u>		
N/A	45,838,557,958	20,439,613,494
¢	<u>1,368,786,073,274</u>	<u>1,450,791,712,073</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(11) Derivative financial instruments

The Conglomerate holds the following types of derivative financial instruments:

iii. 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:

		2023		Purpose
Issuing bank		Notional amount	Valuation	
Chicago Board of Trade	US\$	21,100,000	US\$ 39,672	Standardized futures contracts (maturing in 2024)
Amount in colones	¢	<u>11,117,168,000</u>	¢ <u>20,902,320</u>	
		2022		Purpose
Issuing bank		Notional amount	Valuation	
JP Morgan	US\$	45,833,000	US\$ (1,099,733)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000	(3,086,417)	
	US\$	<u>174,464,000</u>	US\$ <u>(4,186,150)</u>	
Amount in colones	¢	<u>105,025,583,360</u>	¢ <u>(2,520,020,583)</u>	
Chicago Board of Trade	US\$	8,900,000	US\$ (5,141)	Standardized futures contracts (maturing in 2023)
Amount in colones	¢	<u>5,357,711,000</u>	¢ <u>(3,094,602)</u>	

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Regarding the first international issue negotiated in 2013 through a bond for \$500 million, for which Interest Rate Swaps (IRS) were also negotiated to hedge that issue with different counterparties abroad, the issue matured on November 1, 2023. As established in the contract, the outstanding balance of \$174.4 million was paid and the different hedge derivatives (IRS) were liquidated, thus settling the issue, interests, valuation and other corresponding items, thus complying with the bond's maturity and the corresponding hedge derivatives.

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

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

	2023	
	US dollars	Colones
Notional amount	21,100,000	11,117,168,000
<u>Valuation</u>		
Positive valuation	154,648	81,481,170
Negative valuation	(114,977)	(60,578,850)
Net valuation	39,672	20,902,320

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of December 31, 2023, the Conglomerate has no swaps, as they matured in November 2023.

As of December 31, 2022, the total notional amount of swaps and its valuation is as follows:

	2022	
	US dollars	Colones
Notional amount	174,464,000	105,025,583,360
<u>Valuation</u>		
Negative valuation	(4,186,150)	(2,520,020,583)
Net valuation	(4,186,150)	(2,520,020,583)

iv. 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, the total notional amount and valuation of forwards contracts is as follows:

	2023		2022	
	US dollars	Colones	US dollars	Colones
Total notional amount	13,530,694	7,129,052,308	250,000	150,497,500
<i>Valuation</i>				
Positive valuation	-	282,823,967	-	12,227,870
Negative valuation	-	(101,908,050)	-	-
Net valuation	-	180,915,917	-	12,227,870

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

	2023	2022
Total notional amount	18,246,220,308	110,533,791,860
<i>Positive valuation</i>		
Standardized futures contracts	81,481,170	4,185,715
Forwards contracts	282,823,967	12,227,870
	364,305,137	16,413,585
<i>Negative valuation</i>		
Swaps	-	(2,520,020,583)
Standardized futures contracts	(60,578,850)	(7,280,317)
Forward contracts	(101,908,050)	-
	(162,486,900)	(2,527,300,900)
Net valuation	201,818,237	(2,510,887,315)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
Gain on derivative financial instruments ¢	5,087,635,474	5,985,148,376
Loss on derivative financial instruments	(5,115,197,936)	(12,979,298,545)
Net losses ¢	(27,562,462)	(6,994,150,169)

(12) Loan portfolio

(a) Loan portfolio by sector

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

	2023	2022
Trade ¢	371,781,559,841	342,969,138,183
Services (I)	1,194,584,316,434	1,095,059,447,030
Financial services (I)	81,391,063,023	109,720,870,239
Mining	350,175,300	398,427,532
Manufacturing and quarrying	162,916,740,222	178,994,270,719
Construction	59,369,407,971	61,758,622,977
Agriculture and forestry	111,481,852,965	103,712,943,915
Livestock, hunting and fishing	75,217,860,111	73,772,137,199
Electricity, water, sanitation and other related sectors	408,149,689,347	418,966,686,202
Transportation and telecommunications	38,350,015,905	40,346,931,588
Housing	1,488,855,876,419	1,444,538,734,270
Personal or consumer loans	698,675,675,272	566,079,512,647
Tourism	267,194,961,624	269,338,328,270
Total direct loans	4,958,319,194,434	4,705,656,050,771
Incremental direct costs related to loans	6,360,771,801	5,755,898,412
(Deferred income from loan portfolio)	(48,113,222,075)	(41,927,136,381)
Accrued interest receivable	90,753,414,848	102,173,613,358
Allowance for loan losses	(129,801,051,027)	(139,365,727,145)
Loan portfolio ¢	4,877,519,107,981	4,632,292,699,015

(I) As of December 31, 2023, the portfolio purchased by the Bank amounts to ¢82,528,950,016 (2022: ¢108,139,194,106), distributed among the services and financial services sectors.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Currency	2023		2022	
	Rates	Average (1)	Rates	Average (1)
Colones	0.55% to 45.00%	13.93%	0.55% to 45%	20.08%
US dollars	1.45% to 28.00%	11.53%	1.45% to 28%	5.11%
UDES	3.85% to 6.91%	4.72%	3.85% to 10%	4.26%

(1) Simple average of the minimum and maximum values of the portfolio at the end of the periods indicated.

(b) Loan portfolio by arrears

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

	2023	2022
Current	¢ 4,662,741,006,200	4,422,303,618,346
1 to 30 days	71,108,212,985	63,091,714,270
31 to 60 days	70,798,742,194	68,068,728,025
61 to 90 days	30,738,298,218	28,917,000,212
91 to 120 days	15,698,248,759	7,245,310,645
121 to 180 days	22,961,539,684	22,972,652,418
More than 180 days	84,273,146,394	93,057,026,855
	<u>4,958,319,194,434</u>	<u>4,705,656,050,771</u>
Incremental direct costs related to loans	6,360,771,801	5,755,898,412
(Deferred income from loan portfolio)	(48,113,222,075)	(41,927,136,381)
Accrued interest receivable	90,753,414,848	102,173,613,358
Allowance for loan losses	(129,801,051,027)	(139,365,727,145)
	<u>¢ 4,877,519,107,981</u>	<u>4,632,292,699,015</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(c) Allowance for loan losses

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

		2023	2022
Opening balance	¢	139,365,727,145	135,831,283,295
Allowance expense for the year (Note 39)		34,554,387,752	46,950,617,208
Write-offs		(38,604,261,492)	(40,301,050,935)
Decrease in allowance		(381,416,885)	(81,428)
Foreign exchange differences		(5,133,385,493)	(3,115,040,995)
Closing balance	¢	<u>129,801,051,027</u>	<u>139,365,727,145</u>

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

(d) Allowance for impairment of stand-by credits

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

		2023	2022
Opening balance	¢	1,186,743,415	862,169,136
Allowance expense for the year (Note 36)		3,797,574	384,000,000
Foreign exchange differences		(106,434,969)	(59,425,721)
Closing balance	¢	<u>1,084,106,020</u>	<u>1,186,743,415</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(13) Accounts and fees and commissions receivable

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

	2023	2022
Fees and commissions	¢ 2,200,365,080	1,783,560,799
Accounts due from employees	22,176,642	31,661,571
Deferred tax (Note 16-b)	479,258,489	268,669,833
Income tax receivable (1)	133,040,592	145,598,420
Value added tax	36,247,812	23,656,842
Sundry accounts receivable related to credit cards	359,743,781	463,439,223
Other expenses receivable	22,226,905	22,769,687
Credit fraud	362,797,508	742,752,108
Other accounts receivable	2,713,995,107	1,886,703,251
Misappropriation and theft	4,758,193,197	1,464,986,868
Accrued interest receivable on other sundry accounts receivable	2,012,794	725,933
Allowance for impairment of accounts receivable	(7,613,470,373)	(4,329,683,075)
	¢ <u>3,476,587,534</u>	<u>2,504,841,460</u>

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

	2023	2022
Banco Nacional de Costa Rica	¢ 133,040,592	145,577,899
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.	-	20,521
	¢ <u>133,040,592</u>	<u>145,598,420</u>

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

	2023	2022
Opening balance	¢ 4,329,683,075	4,073,541,909
Allowance expense (Note 39)	4,673,937,125	2,064,918,116
Decrease in allowance (Note 40)	(280,020,795)	(786,561,237)
Write-offs	(1,049,359,965)	(977,168,662)
Foreign exchange differences	(60,769,067)	(45,047,051)
Closing balance	¢ <u>7,613,470,373</u>	<u>4,329,683,075</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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:

	2023	2022
Assets acquired in lieu of payment	¢ 98,643,910,547	98,126,485,936
Idle property, furniture and equipment	-	55,884,628
Allowance for impairment of assets held for sale and per legal requirements	(62,186,753,305)	(60,686,913,169)
	¢ <u>36,457,157,242</u>	<u>37,495,457,395</u>

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

	2023	2022
Opening balance	¢ 60,686,913,169	58,895,478,390
Allowance expense (Note 43)	5,570,428,707	7,860,283,102
Disposal of assets held for sale	(55,884,627)	-
Decrease in allowance	(4,014,703,944)	(6,068,848,323)
Closing balance	¢ <u>62,186,753,305</u>	<u>60,686,913,169</u>

(15) Investments in other companies

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

	2023	2022
Investment in other financial and non-financial entities (1)	¢ 1,100,623,300	50,623,300
Banco Internacional de Costa Rica, S.A. and Subsidiary (BICSA) (2)	67,325,815,587	73,316,076,275
	¢ <u>68,426,438,887</u>	<u>73,366,699,575</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022	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 (Golfito Duty Free Shopping Center) per Article 24 of Law No. 7131	5,200,000	5,200,000	Golfito Duty Free Shopping Center
Other financial entities (cooperatives)	423,300	423,300	Investments in various cooperatives
Shares in BN Centro de Procesos S.A.	1,050,000,000	-	BN Centro de Procesos S.A.
¢	<u>1,100,623,300</u>	<u>50,623,300</u>	

(2) The Bank holds 49% ownership interest in BICSA, which for 2023 and 2022, is represented by 6,506,563 ordinary shares with a par value of US\$10.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

a) Historical cost and depreciation

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

	2023					
	Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
<u>Cost:</u>						
Historical cost at beginning of year	¢ 4,281,149,678	73,195,840,170	77,142,375,450	52,779,484,355	283,116,885	207,681,966,538
Revalued cost at beginning of year	49,667,757,458	65,580,690,062	(7,662,255)	(32,078,911)	-	115,208,706,354
Additions	-	64,189,113	9,834,661,010	4,163,014,654	-	14,061,864,777
Disposals	-	-	(5,326,900,114)	(4,860,631,910)	(10,001,788)	(10,197,533,812)
Revaluation	4,578,156,017	9,786,667,228	-	-	-	14,364,823,245
Adjustments	22,085,002	(2,680,969,458)	3,785,144	194,897,850	-	(2,460,201,462)
Reclassifications	-	-	10,929,127	(10,929,127)	-	-
Closing balance	58,549,148,155	145,946,417,115	81,657,188,362	52,233,756,911	273,115,097	338,659,625,640
<u>Accumulated depreciation:</u>						
Opening balance	-	53,833,621,251	47,672,251,728	42,640,291,354	164,152,940	144,310,317,273
Depreciation expense on historical cost	-	1,609,532,380	7,845,331,289	3,957,903,632	16,039,470	13,428,806,771
Depreciation expense on revalued cost	-	809,901,101	-	-	-	809,901,101
Disposals	-	-	(5,212,911,122)	(4,812,761,227)	(9,726,995)	(10,035,399,344)
Adjustments	-	1,482,613,851	(78,535)	(567,193)	-	1,481,968,123
Reclassifications	-	-	7,130,368	(7,130,368)	-	-
Balance at end of year	-	57,735,668,583	50,311,723,728	41,777,736,198	170,465,415	149,995,593,924
Net balance at end of year	¢ 58,549,148,155	88,210,748,532	31,345,464,634	10,456,020,713	102,649,682	188,664,031,716

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Conglomerate's land and buildings were appraised 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:

	2023		
	Right-of-use of building	Right-of-use of vehicles	Total
<u>Cost:</u>			
Opening balance	¢ 38,679,978,342	142,975,127	38,822,953,469
Additions	25,698,198,598	-	25,698,198,598
Disposals	(34,400,827)	(142,975,127)	(177,375,954)
Adjustments	803,124,880	-	803,124,880
Closing balance	65,146,900,993	-	65,146,900,993
<u>Accumulated depreciation:</u>			
Opening balance	10,915,631,416	119,411,840	11,035,043,256
Depreciation expense	4,297,564,813	23,563,285	4,321,128,098
Disposals	(35,192,849)	(142,975,124)	(178,167,973)
Adjustments	5,118,219	-	5,118,219
Closing balance	15,183,121,599	-	15,183,121,600
Net closing balance	¢ 49,963,779,394	-	49,963,779,393

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2022		
	Right-of-use of building	Right-of-use of vehicles	Total
<i><u>Cost:</u></i>			
Opening balance	¢ 38,662,163,871	107,630,182	38,769,794,053
Additions	716,822,874	-	716,822,874
Revaluation	(37,094,502)	-	(37,094,502)
Disposals	(965,626,670)	-	(965,626,670)
Adjustments	303,712,771	35,344,945	339,057,716
Closing balance	<u>38,679,978,344</u>	<u>142,975,127</u>	<u>38,822,953,471</u>
<i><u>Accumulated depreciation:</u></i>			
Opening balance	8,604,657,643	88,061,098	8,692,718,741
Depreciation expense	2,854,742,747	31,350,741	2,886,093,488
Disposals	(458,900,351)	-	(458,900,351)
Adjustments	(84,868,622)	-	(84,868,622)
Closing balance	<u>10,915,631,417</u>	<u>119,411,839</u>	<u>11,035,043,256</u>
Net closing balance	¢ <u>27,764,346,927</u>	<u>23,563,288</u>	<u>27,787,910,215</u>

c) *Lease liabilities*

i. *Amounts recognized in profit or loss*

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

	2023	2022
Interest on lease liability	¢ <u>4,131,919,195</u>	<u>3,601,050,576</u>
Expenses for leases of low-value assets, excluding short-term assets	¢ <u>337,499,414</u>	<u>719,978,467</u>

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

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

	2023	2022
Cash outflows for leases	¢ <u>(2,982,590,930)</u>	<u>(2,138,603,083)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(17) Other assets

As of December 31, other assets are as follows:

	2023	2022
<i><u>Deferred charges:</u></i>		
Leasehold improvements (1)	¢ 806,930	4,925,965
Cost of issue of financial instruments, net (2)	-	102,345,247
Cost of subordinated debt project	18,687,959	28,212,520
Other deferred charges	2,882,137	14,195,002,205
	<u>22,377,026</u>	<u>14,330,485,937</u>
<i><u>Intangible assets:</u></i>		
Software (3)	5,618,585,210	8,968,845,348
Other intangible assets (3)	9,313,390	8,831,483
	<u>5,627,898,600</u>	<u>8,977,676,831</u>
<i><u>Other assets:</u></i>		
Prepaid taxes	14,809,166,741	11,144,829,712
Prepaid insurance policy	245,656,900	228,429,816
Other prepaid expenses	7,076,154,757	5,349,770,814
Stationery, office supplies and other materials	857,105,884	1,013,805,560
Leased assets	128,583,896	118,708,632
Library and artwork	404,667,948	404,704,948
Construction work in progress	214,941,893	214,941,893
Automated applications under development	132,498,126	143,126,460
Payments to welfare and trade associations	350,000	350,000
Other sundry assets	153,486,106	153,486,106
Operations pending settlement	11,514,246,773	11,988,708,377
Other operations pending application	87,848,438	113,620,383
Security deposits (Note 7)	686,148,648	320,427,052
Legal and administrative deposits (Note 7)	284,125,278	212,454,762
	<u>36,594,981,388</u>	<u>31,407,364,515</u>
	<u>¢ 42,245,257,014</u>	<u>54,715,527,283</u>

(1) As of December 31, 2023, the amortization expense for leasehold improvements amounts to ¢4,119,034 (2022: ¢4,831,259).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2023		
		5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	¢	263,440,000	263,440,000	526,880,000
Commission - Moody's Investors Service		131,720,000	131,720,000	263,440,000
Commission - Société de la Bourse de Luxembourg S.A.		6,439,000	6,439,000	12,878,000
RR Donelley		5,767,755	5,767,755	11,535,510
BNY Mellon		2,082,757	2,082,757	4,165,514
Moody's issuer rating		17,439,728	17,439,728	34,879,456
Fitch Ratings		131,720,000	131,720,000	263,440,000
Milbank		77,535,661	77,535,661	155,071,322
Shearman & Sterling		77,636,295	77,636,295	155,272,590
External audit		100,107,200	100,107,200	200,214,400
		813,888,396	813,888,396	1,627,776,792
Amortization		(813,888,396)	(813,888,396)	(1,627,776,792)
	¢	-	-	-
		2022		
		5-year issue (maturing in 2021)	10-year issue (maturing in 2023)	Total
Commission - structuring banks	¢	300,995,000	300,995,000	601,990,000
Commission - Moody's Investors Service		150,497,500	150,497,500	300,995,000
Commission - Société de la Bourse de Luxembourg S.A.		7,356,920	7,356,920	14,713,840
RR Donelley		6,589,985	6,589,960	13,179,945
BNY Mellon		2,379,667	2,379,666	4,759,333
Moody's issuer rating		19,925,869	19,925,869	39,851,738
Fitch Ratings		150,497,500	150,497,500	300,995,000
Milbank		88,588,848	88,588,849	177,177,697
Shearman & Sterling		88,703,828	88,703,828	177,407,657
External audit		114,378,100	114,378,100	228,756,200
		929,913,217	929,913,193	1,859,826,410
Amortization		(929,913,217)	(827,567,946)	(1,757,481,163)
	¢	-	102,345,247	102,345,247

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2023		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	39,900,777,778	8,831,483	39,909,609,261
Additions		2,205,747,714	37,735,467	2,243,483,181
Disposals		(5,708,521,584)	-	(5,708,521,584)
Adjustments		-	(37,253,560)	(37,253,560)
Closing balance		<u>36,398,003,908</u>	<u>9,313,390</u>	<u>36,407,317,298</u>
<u>Accumulated amortization:</u>				
Opening balance		30,931,932,440	-	30,931,932,440
Expense for the year		5,411,170,267	37,253,560	5,448,423,827
Disposals		(5,477,014,407)	-	(5,477,014,407)
Adjustments		(86,669,602)	(37,253,560)	(123,923,162)
Closing balance		<u>30,779,418,698</u>	<u>-</u>	<u>30,779,418,698</u>
Net closing balance	¢	<u>5,618,585,210</u>	<u>9,313,390</u>	<u>5,627,898,600</u>
		2022		
		Software	Other intangible assets	Total
<u>Cost:</u>				
Opening balance	¢	35,209,164,295	50,494,354	35,259,658,649
Additions		5,534,205,218	35,832,955	5,570,038,173
Disposals		(796,116,331)	(42,095,559)	(838,211,890)
Adjustments		(46,475,393)	(35,400,267)	(81,875,660)
Closing balance		<u>39,900,777,789</u>	<u>8,831,483</u>	<u>39,909,609,272</u>
<u>Accumulated amortization:</u>				
Opening balance		26,045,610,451	42,095,559	26,087,706,010
Expense for the year		5,603,292,401	35,325,935	5,638,618,336
Disposals		(667,390,964)	(42,095,559)	(709,486,523)
Adjustments		(49,579,447)	(35,325,935)	(84,905,382)
Closing balance		<u>30,931,932,441</u>	<u>-</u>	<u>30,931,932,441</u>
Net closing balance	¢	<u>8,968,845,348</u>	<u>8,831,483</u>	<u>8,977,676,831</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(18) Obligations with the public

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

	2023	2022
<i><u>Demand deposits:</u></i>		
Checking accounts	¢ 2,067,740,723,971	2,043,303,492,671
Certified checks	40,454,579	82,905,436
Savings deposits	2,335,834,266,373	2,235,282,084,991
Matured term deposits	18,980,585,108	19,669,968,927
Other demand deposits	102,743,561	106,460,320
Drafts and transfers payable	50,888,624	40,420,863
Cashier's checks	2,921,088,857	4,531,280,930
Advance collections from customers for credit cards	11,842,530,241	11,663,506,960
Trust fund obligations	11,776,361	37,235,289
	<u>4,437,525,057,675</u>	<u>4,314,717,356,387</u>
<i><u>Term deposits:</u></i>		
Deposits from the public	1,865,534,883,102	1,693,242,933,309
Other term deposits	88,860,097,273	97,423,859,878
	<u>1,954,394,980,375</u>	<u>1,790,666,793,187</u>
<i><u>Other obligations with the public:</u></i>		
Finance charges payable	58,484,221,323	36,671,811,687
	<u>¢ 6,450,404,259,373</u>	<u>6,142,055,961,261</u>

As of December 31, 2023, 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% per annum on balances greater than or equal to ¢500,001 (2022: interest at 3.05% and 0% 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% per annum on balances greater than or equal to US\$1,000 (2022: interest at 0.20% and 0% per annum, respectively).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

Currency	2023	2022
Colones	4.07% to 6.66%	4.30% to 9.54%
US dollars	1.24% to 4.89%	0.10% to 3.80%

The Conglomerate has term certificates of deposit that are restricted to secure certain loan operations. As of December 31, 2023, the balance of those term certificates of deposit is ¢79,378,893,158 (2022: ¢82,625,362,702). 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:

	2023	2022
Financing of loans using internal funds - BCCR (i)	144,346,236,100	164,570,763,666
Financing of loans using external funds (ii)	¢ 125,644,412	125,644,412
Finance charges payable	3,115,180,965	2,265,548,263
	¢ <u>147,587,061,477</u>	<u>166,961,956,341</u>

- 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.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(20) Obligations with financial entities

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

	2023	2022
<i><u>Demand:</u></i>		
Checking accounts with local financial entities	¢ 59,476,704,619	43,916,537,730
Savings deposits with local financial entities	42,687,081	34,658,874
Outstanding checks	704,527,230	1,208,142,711
Matured term deposits	54,975,010	61,018,729
Checking accounts and obligations with related parties (Note 8)	14,005,187	44,277,901
	<u>60,292,899,127</u>	<u>45,264,635,945</u>
<i><u>Term:</u></i>		
Lease liabilities (1)	52,439,479,489	32,276,066,066
Term obligations with foreign financial entities (2)	-	103,761,660,525
Term obligations with financial entities (3)(4)	28,146,736,965	31,181,086,370
Loans from foreign financial entities (4)	42,150,400,000	111,571,141,028
Obligations for deferred liquidity operations	-	33,000,000,000
Term deposits with local financial entities	85,404,630,023	87,641,877,298
Obligations with funds from the liquidity market	43,310,478,402	36,675,790,002
Obligations with funds from the Development Credit Fund	140,350,657,066	180,863,648,754
	<u>391,802,381,945</u>	<u>616,971,270,043</u>
(Deferred fees and commissions on own loan portfolio)	-	(103,269,735)
Charges payable for term deposits with foreign financial entities (2)	-	1,094,016,546
Charges payable for loans with local financial entities (3)	64,154,159	81,717,408
Charges payable for loans with foreign financial entities	211,684,857	509,773,987
Charges payable for other demand and term obligations with financial entities – foreign currency	45,747,568	77,816,225
Charges payable for other demand and term obligations with financial entities – local currency	1,822,957,538	1,025,796,679
	<u>2,144,544,122</u>	<u>2,789,120,845</u>
	<u>¢ 454,239,825,194</u>	<u>664,921,757,098</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(1) Lease liabilities

As of December 31, 2023, long-term lease liabilities and their current portion amount to ¢8,130,593,259 and US\$82,317,598, for a total in colones of ¢51,502,089,230, using an exchange rate of ¢526.88 (2022: ¢7,148,807,318 and USD\$40,175,051, for a total in colones of ¢31,333,786,038, using an exchange rate of ¢601.99).

As of December 31, lease operations are as follows:

	2023			2022		
	No. of operations	Interest rates	Maturity	No. of operations	Interest rates	Maturity
In colones	20	5.56% and 15% per annum	2023 and 2048	19	5.56% and 15% per annum	2022 and 2047
In US dollars	53	3.57% and 8.85% per annum	2024 and 2048	54	3.57% and 8.85% per annum	2022 and 2041
	73			73		

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

	2023		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢ 6,859,282,981	4,297,831,186	2,561,453,949
Between one and five years	33,482,250,458	17,583,037,242	15,899,222,820
More than five years	47,852,991,404	13,874,211,304	33,978,802,915
	¢ 88,194,524,843	35,755,079,732	52,439,479,491
	2022		
	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢ 4,967,261,575	3,018,555,272	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	18,971,176,367
	¢ 55,703,257,568	23,427,232,085	32,276,067,005

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

		2023	2022
Opening balance	¢	32,276,066,066	35,793,605,766
New financial obligations		25,687,018,581	393,322,020
Settlements or withdrawals		-	(662,645,977)
Adjustments		1,338,717,228	576,526,206
Payment of obligations		(2,977,472,712)	(2,138,603,082)
Foreign exchange differences		(3,884,849,669)	(1,686,137,928)
Closing balance	¢	52,439,479,492	32,276,067,005

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

<u>Date of issue</u>	<u>Face value</u>	<u>Characteristics</u>
03/12/2007	US\$75	Traded amount: 100% Term: 22 years Interest rate: 6.65 per coupon
14/12/2022	US\$5.0	Traded amount: 100% Term: 9 years Interest rate: 10.43 per coupon

As of December 31, 2023, the following operations were settled:

- loan with Nomura Bank
- loan with China Development Bank
- loan with KFW Bank.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

As of December 31, 2023, there are no balances according to the term of the obligations.

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

		2023		
		Local	Foreign	Total
One to two years	¢	1,714,219,091	-	1,714,219,091
Three to five years		727,828,554	-	727,828,554
More than five years		25,768,843,478	42,368,951,842	68,137,795,320
	¢	28,210,891,124	42,368,951,842	70,579,842,966

		2022		
		Local	Foreign	Total
Less than one year	¢	-	105,857,727,682	105,857,727,682
One to two years		81,717,408	3,213,237,333	3,294,954,741
Three to five years		3,178,742,647	-	3,178,742,647
More than five years		28,002,343,723	3,024,880,857	31,027,224,580
	¢	31,262,803,778	112,095,845,872	143,358,649,650

(4) As of December 31, 2023, loans due to financial entities abroad bear interest at rates ranging from 6.65% to 10.43% per annum (2022: from 3.32% to 6.92% per annum).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, the reconciliation of notes payable with cash flows from financing activities, as required by IAS 7, is as follows:

		2023	2022
Balance at beginning of year	¢	142,752,227,398	154,159,108,956
New financial obligations		-	3,014,300,000
Settlement of financial obligations		(59,467,572,285)	(6,621,048,346)
Foreign exchange differences		(12,987,518,148)	(7,800,133,212)
Cash flows from financing activities		(72,455,090,433)	(11,406,881,558)
Balance at end of year	¢	70,297,136,965	142,752,227,398

(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:

		2023	2022
<i>Current tax:</i>			
Current tax expense for the year	¢	20,166,752,706	29,148,260,936
Prior-period income tax expense		14,189,237,931	14,189,237,931
Decrease in prior-period income tax		(1,207,402,403)	-
		33,148,588,234	43,337,498,867
<i>Deferred tax:</i>			
Deferred tax expense		1,888,723,862	1,748,211,294
Deferred tax income		(1,004,004,343)	(1,733,569,705)
Deferred tax expense, net		884,719,519	14,641,589
Tax expense, net	¢	34,033,307,754	43,352,140,456

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of 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:

	2023		2022	
Income before income tax	¢ 100,548,912,374		104,126,640,441	
<i>Plus (less) tax effect of:</i>				
Non-deductible expenses	535,967,510,522	792%	46,981,406,159	48%
Deductible expenses	(32,784,309,724)	48%	(12,551,739,799)	13%
Non-taxable income	(536,509,604,152)	792%	(41,610,087,774)	43%
Taxable income	-	0%	214,650,761	0%
Tax base	67,222,509,020		97,160,869,786	
Tax rate	30%		30%	
Income tax expense	20,166,752,706	30%	29,148,260,936	30%
Prior-period income tax expense	14,189,237,931		14,189,237,931	
Decrease in prior-period income tax	(1,207,402,403)		-	
Deferred tax expense	1,888,723,862		1,748,211,294	
Deferred tax income	(1,004,004,343)		(1,733,569,705)	
Deferred tax expense, net	884,719,520		14,641,589	
Income tax expense, net	¢ 34,033,307,752	34%	43,352,140,456	42%

Deferred tax

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

	2023		
	Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢ 27,237,925	-	27,237,925
Provisions	15,178,106	-	15,178,106
Right-of-use assets (1)	828,757,545	-	828,757,545
Allowance for impairment of accounts receivable	1,569,279	-	1,569,279
Lease liabilities	-	(95,380,146)	(95,380,146)
Unrealized gains on valuation of investments	-	(987,650,563)	(987,650,563)
Revaluation of property	-	(11,279,487,556)	(11,279,487,556)
Tax base of property and equipment	-	(4,747,987,545)	(4,747,987,545)
	¢ 2,245,759,834	(17,110,505,810)	(16,237,762,955)

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	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)	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)
	¢ <u>7,386,575,922</u>	<u>(14,482,586,505)</u>	<u>(7,096,010,583)</u>

(1) As of December 31, 2023, the deferred income tax, net, arises from the right-of-use assets and lease liabilities in the amount of ¢15,409,817,680 and ¢14,680,881,116, respectively (2022: ¢9,400,135,530 and ¢8,067,101,641, respectively).

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

	December 2022	Included in the income statement	Included in equity	December 2023
Unrealized losses on valuation of investments	¢ 5,327,513,659	-	(5,300,275,733)	27,237,926
Provisions	48,976,754	(33,798,647)	-	15,178,107
Right-of-use assets	1,429,830,091	(601,072,546)	-	828,757,545
Impairment of investments	1,894,419	(325,140)	-	1,569,279
Lease liabilities	(95,756,252)	376,105	-	(95,380,147)
Unrealized gains on valuation of investments	(8,757,156)	-	(978,893,408)	(987,650,564)
Revaluation of property	(9,042,911,732)	-	(2,236,575,824)	(11,279,487,556)
Tax base of property and equipment	(4,621,993,726)	(125,993,819)	-	(4,747,987,545)
	¢ <u>(6,961,203,943)</u>	<u>(760,814,047)</u>	<u>(8,515,744,965)</u>	<u>(16,237,762,955)</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 2022	Included in the income statement	Included in equity	December 2023
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)
	¢ <u>(14,788,979,806)</u>	<u>14,641,589</u>	<u>7,797,284,593</u>	<u>(7,096,010,583)</u>

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

As of December 31, 2023, the Bank has not recognized a deferred tax liability in the amount of ¢4,1394,660,781 (2022: ¢4,079,928,406), given that it controls the moment when the subsidiaries pay dividends.

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

(22) Provisions

As of December 31, provisions are as follows:

	2023	2022
Severance benefits	¢ 323,861,303	312,966,075
Litigation	7,914,742,118	3,980,700,568
Inactive checking and savings accounts liquidated	620,538,390	715,837,949
Variation in RIVM methodology	490,003,103	490,003,103
Notice of deficiency	13,208,825,814	4,714,347,682
Other	728,598,059	610,087,256
	¢ <u>23,286,568,787</u>	<u>10,823,942,633</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2023				
	Severance benefits	Litigation	Other	Total
Balance at beginning of year	¢ 312,966,075	3,980,700,568	6,553,483,755	10,847,150,398
Increase in provision	57,993,579	6,852,663,570	16,424,657,761	23,335,314,910
Used	6,348,095	(2,699,125,206)	(4,777,241,510)	(7,470,018,621)
Decrease in provision	(53,446,446)	(219,496,814)	(3,152,934,640)	(3,425,877,900)
Balance at end of year	¢ 323,861,303	7,914,742,118	15,047,965,366	23,286,568,787

2022				
	Severance benefits	Litigation	Other	Total
Balance at beginning of year	¢ 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 at end of year	¢ 312,966,075	3,980,700,568	6,530,275,990	10,823,942,633

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

Type	Claimed amount		Provision	
	2023	2022	2023	2022
Ordinary - in colones	9,163,884,654	16,836,533,174	4,621,167,575	599,701,381
Ordinary - in US dollars	50,905,903,822	81,982,715,884	493,184,731	3,254,231,270
Criminal - in colones	1,081,199,813	1,020,877,223	-	-
Labor - in colones	688,472,273	866,092,477	2,800,389,812	126,767,917
	¢ 61,839,460,562	100,706,218,758	7,914,742,118	3,980,700,568

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(23) Other sundry accounts payable

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

	2023	2022
Professional fees	¢ 10,256,779	2,124,000
Creditors - goods and services	8,873,685,625	6,444,687,376
Current tax	756,539,254	14,379,163,515
Value added tax	368,983,792	282,111,653
Employer contributions	12,969,088,385	12,608,559,069
Court-ordered withholdings	3,768,539,376	4,242,069,805
Tax withholdings	2,488,430,837	2,166,235,676
Employee withholdings	959,705,730	918,129,686
Other third-party withholdings	9,663,712	9,494,494
Compensation	21,494,623,754	21,254,809,763
Statutory allocations	35,874,827,336	30,595,829,657
Clearing house operations	29,509,914	106,576,220
Accrued vacation	5,947,830,287	5,796,450,453
Accrued statutory Christmas bonus	2,437,542,757	2,402,631,606
Accounts payable – assets held for sale	74,718,277	81,392,010
Provisional deposits for the payment of premiums	1,738,380,030	1,724,766,840
Property	499,480,720	902,931,071
SICOP guarantees	1,191,484,721	1,257,167,862
Amounts received for partial sales of assets held for sale	741,645,816	809,316,748
Master Card and Visa payments	2,318,945,542	1,909,533,657
Other various creditors	4,430,979,104	2,925,095,219
Interest rate futures - Hedges (Note 9)	60,578,850	2,527,300,900
Purchase of FX futures	101,908,050	-
	¢ <u>107,147,348,648</u>	<u>113,346,377,280</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(24) Other liabilities

As of December 31, other liabilities are as follows:

		2023	2022
<u>Deferred income:</u>			
Deferred fees and commissions for trust management	¢	88,687,508	100,946,981
		<u>88,687,508</u>	<u>100,946,981</u>
<u>Operations pending application:</u>			
Operations pending settlement		16,556,080,166	14,112,053,303
Other operations pending settlement		16,466,611,653	16,283,878,923
		<u>33,022,691,819</u>	<u>30,395,932,226</u>
	¢	<u>33,111,379,327</u>	<u>30,496,879,207</u>

(25) Subordinated obligations

As of December 31, the Conglomerate's subordinated obligations are as follows:

Entity	Interest rate per annum	Term	Maturity	US\$	2023	2022
IDB	6-month LIBOR + 6.30% in the first 5 years and 6-month LIBOR + 6.80% thereafter	10	18/02/2032		45,000,000	45,000,000
CABEI	6-month LIBOR + 5.25% in the first 5 years and 6-month LIBOR + 5.75% thereafter	15	23/10/2029		18,000,000	21,000,000
AFD	Fixed rate at 8.28% over the entire term (1)	10	29/09/2031		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	18/02/2032		30,000,000	30,000,000
				US\$	<u>108,000,000</u>	<u>111,000,000</u>
		Total equivalent in colones		¢	56,903,040,000	66,820,890,000
		Finance charges payable			2,162,739,037	2,087,280,318
				¢	<u>59,065,779,037</u>	<u>68,908,170,318</u>

(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)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

In accordance with IRNBS (Law 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:

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Capital reserves

As of December 31, capital reserves are as follows:

	2023	2022
Legal reserve	¢ 403,604,716,089	366,238,968,825
Statutory reserve for assets held for sale	5,469,216,249	4,532,818,969
Excess of statutory reserve for loans	3,474,656,733	6,069,719,151
Statutory dynamic provision	9,649,609,539	10,323,772,636
	¢ 422,198,198,610	387,165,279,581

(c) Equity of the Development Financing Fund

As of December 31, 2023, the allocation of the Bank's earnings for the creation of the Development Financing Fund (FOFIDE) amounts to ¢48,624,595,226 (2022: ¢44,436,595,670).

(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:

	2023	2022
Sureties	¢ 1,562,307	-
Performance bonds	34,129,139,530	41,588,492,525
Bid bonds	971,873,015	3,621,690,761
Other guarantees	607,314,326	128,434,913
Letters of credit	1,249,911,325	3,778,668,632
Credits pending disbursement	115,233,348	118,433,348
	37,075,033,851	49,235,720,179
Pre-approved lines of credit	305,513,773,333	293,573,614,230
Other contingencies not related to credits	6,583,686	83,658,103
Other contingencies - Pending litigation and lawsuits (Note 51)	61,807,146,925	100,706,235,943
	367,327,503,944	394,363,508,276
Sale of FX futures – Other than hedges	7,129,052,308	150,497,500
	¢ 411,531,590,103	443,749,725,955

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

(28) Trust assets

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

The types of trusts managed are as follows:

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023, trust capital is invested in the following assets:

Nature of trust	Cash or property management	Portfolio management	Guaranty	Testamentary	Custody of stock	Guaranties and cash management	Management, custody and guaranty	Public works	Custody of stock and cash management	Trusts with public funds	Guaranty and custody of stock	Rentier management and investment	Premium protection	Equity planning	Total
<i>Trust assets</i>															
Cash and due from banks	€ 81,692,425	30,786,916	1,053,760	451,296	-	-	-	6,875,417	-	127,540,443	-	263,108	265,357,798	-	514,021,163
Investments in financial instruments	1,789,411,491	194,555,114	2,455,475,514,901	2,782,697,883	1,910,879	-	-	13,592,157,660	810,531	16,200,900,322	-	744,174,713	2,277,188,737	75,180,552	2,493,134,502,783
Loan portfolio	-	-	-	-	-	-	-	-	-	5,251,717,346	-	-	-	-	5,251,717,346
Accounts and accrued interest receivable	23,552,039	-	89,910,406	7,530,828	-	206,022,430	-	60,612,840,304	-	87,735,074,689	746,690	-	-	306,279	148,675,983,665
Assets held for sale	-	-	-	-	-	-	-	-	-	59,775,957	-	-	-	-	59,775,957
Investments in other companies	-	-	4,902,010,000	11,142,688	25,160,000	-	-	-	-	-	-	-	-	460,000	4,938,772,688
Property, furniture and equipment	7,175,334,166	-	118,367,261,922	1,069,780,959	-	1,544,041,161	-	30,421,442,290	-	436,468,877	283,559,514	-	-	337,565,998	159,635,454,887
Other assets	83,107,486	-	3,087,897,448	3,107,427	-	-	5,106,159,561	20,896,629,206	-	1,523,349,187	-	-	-	29,727	30,700,280,039
€	9,153,097,607	225,342,030	2,581,923,648,437	3,874,711,081	27,070,879	1,750,063,591	5,106,159,561	125,529,944,877	810,531	111,334,826,821	284,306,204	744,437,821	2,542,546,535	413,542,556	2,842,910,508,528

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	Guaranty and custody of stock	Rentier management and investment	Premium protection	Equity planning	Total
<i>Trust assets</i>															
Cash and due from banks	€ 457,418,164	7,006,259	17,831,456	1,203,980	8,738	-	-	38,035	-	26,992,654	5,593	-	6,019,900	-	516,524,779
Investments in financial instruments	164,263,111,120	10,025,137,476	583,185,836	2,748,159,222,037	3,596,855,860	-	2,588,698	62,100,897	-	35,087,081	619,851	108,698,902	27,206,716	604,776	2,926,864,419,250
Loan portfolio	3,897,648,287	-	979,913,152	-	-	-	-	-	-	-	-	-	-	-	4,877,561,439
Accounts and accrued interest receivable	144,708,190,437	29,141,446,846	2,094,588,836	81,263,368	9,479,903	-	-	207,247,468	-	-	244,221	-	-	-	176,242,461,079
Assets held for sale	48,920,810	-	3,213,881	-	-	-	-	-	-	-	-	-	-	-	52,134,691
Investments in other companies	-	-	-	4,595,000,000	24,302,199	164,000	-	-	25,206,000	-	2,740,000	-	-	-	4,647,412,199
Property, furniture 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

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(29) Other debit memoranda accounts

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

	2023	2022
Pension Fund Manager's own investments in custody – Face value of principal	¢ 12,570,995,357	11,909,502,397
Pension Fund Manager's own investments in custody – Coupons	7,144,123,377	8,258,756,860
Pension Fund Manager's own investments in custody – Number of shares	23	23
Guarantees received in the Bank's custody	4,624,785,721	1,537,758,245
Guarantees on financial instruments	1,022,606,729	8,673,472
Other guarantees received in the Bank's custody	9,907,734,566,392	8,251,549,284,419
Lines of credit granted but unused	431,997,000,239	385,726,062,498
Loans pending disbursement	145,801,796,899	160,078,072,925
Unused overdrafts	55,000,000	53,979,253
Loans settled	457,744,467,939	457,054,589,644
Other accounts receivable settled	25,037,420,793	24,011,040,515
Accrued interest receivable settled	44,134,262,935	41,915,053,706
Interest income on non-accrual loans of loan portfolio	37,569,403,174	37,366,216,301
Supporting documentation received in the Bank's custody	5,102	9,003,537
Securities issued pending placement	69,037,000,000	97,233,000,000
Lines of credit or overdrafts obtained but unused	1,954,724,798	6,019,899,998
Notified letters of credit	2,909,592,202	5,706,280,400
Notional value subject to interest rate futures (Note 11)	11,117,168,000	110,383,294,360
Reversals made to income accounts for the year	32,235,526,621	39,818,861,196
Reversals made to expense accounts for the year	156,620,327,279	191,552,930,770
Non-deductible expenses	531,225,826,310	40,867,557,589
Non-taxable income	542,329,450,425	45,834,899,311
Other memoranda accounts	123,619,061,443	222,845,085,807
	<u>12,546,485,111,758</u>	<u>10,139,739,803,226</u>
Third-party debit memoranda accounts (1)	4,956,547,223,229	4,722,010,921,517
Own debit memoranda accounts for custodial activities	640,304,967,101	527,864,839,532
Third-party debit memoranda accounts for custodial activities	17,304,662,026,826	16,084,024,046,419
	<u>22,901,514,217,156</u>	<u>21,333,899,807,468</u>
¢	<u>35,447,999,328,914</u>	<u>31,473,639,610,694</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
Management of banking mandates	¢ 1,668,740,260,281	1,811,845,820,166
“TUDES” securities received in custody from affiliates under Article 75 of Law No. 7531	974,083,918	833,199,135
Pension funds (Note 32)	2,526,046,391,386	2,218,384,850,204
Investment funds (Note 31)	682,616,250,291	608,484,320,423
Portfolio management	78,170,237,353	82,462,731,589
	¢ <u>4,956,547,223,229</u>	<u>4,722,010,921,517</u>

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

	2023	2022
Banco Nacional de Costa Rica	¢ 31,107,077,262,393	27,484,970,600,693
BN Valores Puesto de Bolsa, S.A. (Note 30)	1,111,429,293,218	1,140,643,825,479
BN Sociedad Administradora de Fondos de Inversión, S.A. (Note 31)	682,701,900,813	608,549,474,735
BN Vital Operadora de Planes de Pensiones Complementarias, S.A. (Note 32)	2,546,790,872,490	2,239,475,709,787
	¢ <u>35,447,999,328,914</u>	<u>31,473,639,610,694</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	<u>2023</u>	<u>2022</u>
<i><u>Own</u></i>		
Futures contracts pending settlement	49,518,947,553	36,962,540,909
Own trading securities (Note 30-a)	7,629,635,176	3,972,147,106
Other own memoranda accounts	1,977,791,713	6,054,317,608
	<u>59,126,374,442</u>	<u>46,989,005,623</u>
<i><u>Third party</u></i>		
Trading securities received as guarantees	30,550,174,834	49,041,958,781
Trading securities pending receipt	261,634,400	-
Signed contracts pending settlement	378,001,029	4,302,906
Futures contracts pending settlement	48,864,525,218	79,075,858,326
Third-party trading securities (Note 30-a)	893,595,141,141	882,291,435,071
Cash and accounts receivable	483,204,800	778,533,183
Portfolio management	78,170,237,353	82,462,731,589
	<u>1,052,302,918,775</u>	<u>1,093,654,819,856</u>
Memoranda accounts (Note 29)	¢ <u>1,111,429,293,217</u>	<u>1,140,643,825,479</u>

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

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

<u>Location</u>	<u>Type of custody</u>	<u>2023</u>	<u>2022</u>
<u><i>Own custodial activities</i></u>			
	International custody -		
Local	vault	7,614,635,176	3,957,147,106
Local	Vault	15,000,000	15,000,000
		<u>7,629,635,176</u>	<u>3,972,147,106</u>
<u><i>Custodial activities on behalf of third parties</i></u>			
Local	CEVAL - private	109,235,460,511	146,511,305,137
Foreign	CEVAL - private	119,005,700,111	119,918,718,396
Local	CEVAL - public	560,872,842,433	557,325,800,650
Foreign	International custody	104,287,043,655	58,382,495,516
Local	Vault	8,161,731	8,024,829
Local and foreign	Securities that are doubtful, in arrears or in litigation	185,932,700	145,090,543
		<u>893,595,141,141</u>	<u>882,291,435,071</u>
		<u>¢ 901,224,776,317</u>	<u>886,263,582,177</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2023								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	41,864,356,853	14,528,148	7,654,590,700	49,518,947,553	-	-	-	-
Third parties	3,379,991,642	41,115,994	21,663,194,792	25,043,186,434	5,172,135,629	35,395,542	18,649,203,155	23,821,338,784
	<u>45,244,348,495</u>	<u>55,644,142</u>	<u>29,317,785,492</u>	<u>74,562,133,987</u>	<u>5,172,135,629</u>	<u>35,395,542</u>	<u>18,649,203,155</u>	<u>23,821,338,784</u>
2022								
	Term buyer				Term seller			
	Colones	US dollars	US dollars expressed in colones	Total	Colones	US dollars	US dollars expressed in colones	Total
Own	24,259,739,896	21,101,349	12,702,801,013	36,962,540,909	-	-	-	-
Third parties	6,076,255,439	59,010,598	35,523,790,106	41,600,045,545	10,440,999,005	44,909,075	27,034,813,776	37,475,812,781
	<u>30,335,995,335</u>	<u>80,111,947</u>	<u>48,226,591,119</u>	<u>78,562,586,454</u>	<u>10,440,999,005</u>	<u>44,909,075</u>	<u>27,034,813,776</u>	<u>37,475,812,781</u>

As of December 31, 2023, term buyer and seller positions in tri-party repurchase agreements in US dollars were valued at the exchange rate of ¢526.88 to US\$1.00 (2022: ¢601.99 to US\$1.00).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

2023				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<u>Own</u>				
1 to 30 days	¢ 41,864,356,853	14,528,148	-	-
	<u>41,864,356,853</u>	<u>14,528,148</u>	<u>-</u>	<u>-</u>
<u>Third-party</u>				
1 to 30 days	-	1,770,175	1,491,288,548	1,770,175
31 to 60 days	413,352,535	13,794,990	299,400,000	15,627,485
61 to 90 days	1,067,747,531	22,085,851	1,482,555,505	14,532,905
More than 91 days	1,898,891,576	3,464,978	1,898,891,576	3,464,977
	<u>3,379,991,642</u>	<u>41,115,994</u>	<u>5,172,135,629</u>	<u>35,395,542</u>
¢	<u>45,244,348,495</u>	<u>55,644,142</u>	<u>5,172,135,629</u>	<u>35,395,542</u>
2022				
	Term buyer		Term seller	
	Colones	US dollars	Colones	US dollars
<u>Own</u>				
1 to 30 days	¢ 2,151,893,199	2,007,423	-	-
31 to 60 days	22,107,846,697	19,093,926	-	-
	<u>24,259,739,896</u>	<u>21,101,349</u>	<u>-</u>	<u>-</u>
<u>Third-party</u>				
1 to 30 days	185,858,208	3,067,189	615,785,861	2,516,090
31 to 60 days	2,617,053,355	18,784,558	4,144,534,629	16,743,872
61 to 90 days	483,709,847	32,997,292	2,891,044,484	21,331,803
More than 91 days	2,789,634,029	4,161,559	2,789,634,031	4,317,310
	<u>6,076,255,439</u>	<u>59,010,598</u>	<u>10,440,999,005</u>	<u>44,909,075</u>
¢	<u>30,335,995,335</u>	<u>80,111,947</u>	<u>10,440,999,005</u>	<u>44,909,075</u>

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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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:

	2023		Value per share
Fund	Net value	Shares	
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 206,209,720,665	42,966,446,136	4.80
Fon Depósito colones	58,688,813,355	34,039,876,036	1.72
Creci Fondo colones	5,632,836,053	780,636,086	7.22
Redi Fondo colones	17,942,175,434	3,473,615,080	5.17
Diner Fondo colones	82,898,398,261	25,898,679,344	3.20
	¢ <u>371,371,943,768</u>	<u>107,159,252,682</u>	
<i>Funds in US dollars:</i>			
Creci Fondo US dollars	15,983,196	6,721,022	2.38
Redi Fondo US dollars	30,529,769	15,777,944	1.93
Diner Fondo US dollars	110,330,417	78,029,364	1.41
Fon Depósito US dollars	42,694,518	36,414,868	1.17
Súper Fondo Plus US dollars	306,978,897	258,816,637	1.19
Fondo Internacional - liquidity	32,439,369	21,750	1,491.47
BN internacional Valor	238,464	237,316	1.00
BN internacional Suma	3,592,019	3,444,693	1.04
BN internacional Crece	3,723,952	3,499,702	1.06
BN Infraestructura Pública -1	18,205,292	17,348,285	1.05
FI Desarrollo de Proyecto BN I	26,015,026	19,795	1,314.22
	US\$ <u>590,730,919</u>	<u>420,331,376</u>	
	¢ <u>311,244,306,523</u>	<u>221,464,195,387</u>	
Assets of managed funds	¢ <u>682,616,250,291</u>	<u>328,623,448,069</u>	
<i>Guarantees:</i>			
Performance bonds	83,675,218		
Outstanding checks	<u>1,975,304</u>		
	<u>85,650,522</u>		
Memoranda accounts (Note 29)	¢ <u>682,701,900,813</u>		

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2022		Value per share
Fund	Net value	Shares	
<i>Funds in colones:</i>			
Súper Fondo colones	¢ 145,688,746,541	31,985,110,382	4.55
Fon Depósito colones	58,455,561,075	35,661,741,426	1.64
Creci Fondo colones	7,200,367,505	1,067,912,127	6.74
Redi Fondo colones	20,557,487,566	4,299,912,873	4.78
Diner Fondo colones	55,648,123,500	18,299,424,286	3.04
	¢ <u>287,550,286,187</u>	<u>91,314,101,094</u>	
<i>Funds in US dollars:</i>			
Creci Fondo 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\$ <u>533,121,870</u>	<u>385,119,297</u>	
	¢ <u>320,934,034,236</u>	<u>231,837,965,601</u>	
Assets of managed funds	¢ <u>608,484,320,423</u>	<u>323,152,066,695</u>	
<i>Guarantees:</i>			
Performance bonds	63,179,008		
Outstanding checks	<u>1,975,304</u>		
	<u>65,154,312</u>		
Memoranda accounts (Note 29)	¢ <u>608,549,474,735</u>		

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *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-I*: (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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *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.
- *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.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- *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.

(32) Pension fund management agreements

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

	2023	2022
Mandatory Pension Fund (ROP)	¢ 2,117,961,892,314	1,846,946,571,652
Mandatory Retirement Savings Account (FCL)	107,180,546,084	95,069,302,597
Employee Protection and Retirement Fund	104,168,518,592	98,490,441,114
Voluntary Pension Fund in Colones A (FPC A)	101,692,891,275	38,120,721,096
Voluntary Pension Fund in Colones B (FPC B)	52,134,023,208	95,983,473,819
Voluntary Pension Fund in US dollars A (FPD A) (i)	22,385,160,495	22,268,367,548
Voluntary Pension Fund in US dollars B (FPD B) (ii)	14,129,942,815	14,975,399,413
ICT employee pension fund	6,393,416,603	6,530,572,965
Assets of managed funds (Note 29)	<u>2,526,046,391,386</u>	<u>2,218,384,850,204</u>
Securities and assets in own custody	19,715,118,757	20,168,259,281
Bid and performance bonds – colones	18,539,072	28,581,781
Bid and performance bonds – US dollars (iii)	36,739,357	60,819,387
Securities in DU	974,083,917	833,199,134
Memoranda accounts (Note 29)	¢ <u>2,546,790,872,489</u>	<u>2,239,475,709,787</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- i. As of December 31, 2023, this fund amounts to US\$42,486,260 (2022: US\$36,991,258) and is valued at the exchange rate of ¢526.88 to US\$1.00 (2022: ¢601.99 to US\$1.00).
- ii. As of December 31, 2023, this fund amounts to US\$26,818,142 (2022: US\$24,876,492) and is valued at the exchange rate of ¢526.88 to US\$1.00 (2022: ¢601.99 to US\$1.00).
- iii. As of December 31, 2023, this fund amounts to US\$69,730 (2022: US\$101,031) and is valued at the exchange rate of ¢526.88 to US\$1.00 (2022: ¢601.99 to US\$1.00).

(33) Income from financial instruments

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

		2023	2022
<u>Cash and due from banks:</u>			
Deposits in BCCR	¢	134,152,920	43,871,829
Checking accounts and demand deposits in local entities		74,463,137	54,307,237
Checking accounts and demand deposits in foreign entities		14,672,806,141	6,022,900,025
		<u>14,881,422,198</u>	<u>6,121,079,091</u>
<u>Financial instruments:</u>			
Investments at fair value through profit or loss		328,121,567	234,791,674
Investments at fair value through other comprehensive income		42,204,104,740	28,519,651,974
Investments at amortized cost		44,180,784,551	24,563,101,054
Investments in past due and restricted securities		3,194,001,469	2,332,744,883
		<u>89,907,012,327</u>	<u>55,650,289,585</u>
	¢	<u>104,788,434,525</u>	<u>61,771,368,676</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(34) Income from loan portfolio

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

	<u>2023</u>	<u>2022</u>
<i><u>Current loans:</u></i>		
Individuals	¢ 204,181,168,237	145,699,258,449
Development Banking System	9,280,682,329	4,359,211,078
Business	82,099,955,024	51,530,227,952
Corporate	108,116,724,527	75,330,953,759
Public sector	15,685,509,713	12,480,268,047
Financial sector	7,123,959,308	4,059,327,520
	<u>426,487,999,138</u>	<u>293,459,246,805</u>
<i><u>Past due loans and loans in legal collection:</u></i>		
Individuals	25,424,916,463	12,975,046,331
Development Banking System	684,831,170	232,506,512
Business	12,113,996,689	4,512,527,183
Corporate	4,919,697,376	3,625,660,292
Public sector	125,537,296	33,220,858
Financial sector	3,153,608	1,149,817
In legal collection	6,470,398,232	83,232,727,540
Amortization of net commission of incremental direct costs related to credits	1,108,090,804	1,030,101,252
	<u>50,850,621,638</u>	<u>105,642,939,785</u>
	<u>¢ 477,338,620,776</u>	<u>399,102,186,590</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(35) Other finance income

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

		2023	2022
Fees and commissions on letters of credit	¢	14,502,775	13,562,712
Fees and commissions on guarantees granted		369,856,085	365,947,032
Gain on sale of financial instruments		49,520,084	193,437,178
Gain on fair value hedge for item measured at cost		4,297,998,430	10,205,104,892
Other sundry finance income		153,943,096	436,206,117
Charges for overdue operations		742,981,665	563,906,914
Sundry finance income from late fees		1,883,740,10	1,816,591,061
	¢	<u>7,462,542,945</u>	<u>13,594,755,906</u>

(36) Finance costs for obligations with the public

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

		2023	2022
Demand deposits	¢	104,486,613,574	60,597,602,942
Term deposits		139,819,907,148	70,066,392,356
	¢	<u>244,306,520,722</u>	<u>130,663,995,298</u>

(37) Finance costs for obligations with financial entities

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

		2023	2022
Demand obligations	¢	4,944,334,104	2,776,187,437
Term obligations		29,812,850,514	30,139,516,579
	¢	<u>34,757,184,618</u>	<u>32,915,704,016</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(38) Other finance costs

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

	<u>2023</u>	<u>2022</u>
Fees and commissions on letters of credit obtained	¢ 245,726,614	268,672,780
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	5,457,107,985	7,137,284,851
Other sundry finance costs	364,614,195	953,090,495
	¢ <u>6,067,448,794</u>	<u>8,359,108,016</u>

(39) Expenses for allowance for impairment of assets

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

	<u>2023</u>	<u>2022</u>
Allowance for loan losses (Note 12)	¢ 27,578,110,407	40,556,617,208
Allowance for impairment of other accounts receivable (Note 13)	4,673,937,125	2,064,918,116
Allowance for stand-by credit losses (Note 24)	3,797,574	360,000,000
General and counter-cyclical allowance for loan portfolio (Note 12)	6,972,479,772	6,010,000,000
General and counter-cyclical allowance for stand-by credit losses (Note 12 and 24)	-	24,000,000
Allowance for impairment of investments at fair value through other comprehensive income	1,949,099,934	621,562,330
Allowance for impairment of financial instruments at amortized cost	881,971,629	721,025,622
Allowance for impairment of operations with derivative financial instruments (Note 10)	96,128,845	171,363,624
	¢ <u>42,155,525,286</u>	<u>50,529,486,900</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

	2023	2022
Recovery of loan write-offs	¢ 15,787,471,167	20,581,407,851
Recovery of accounts receivable write-offs	6,557,263	15,497,167
Decrease in allowance for loan losses (Note 6)	381,416,885	81,428
Decrease in allowance for impairment of other accounts receivable (Note 13)	280,020,795	786,561,237
Decrease in allowance for impairment of investments in financial instruments (Note 10)	5,811,852,723	2,267,202,066
	¢ <u>22,267,318,833</u>	<u>23,650,749,749</u>

(41) Income from service fees and commissions

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

	2023	2022
Drafts and transfers	¢ 12,120,204,586	11,763,951,794
Certified checks	1,351,880	1,940,805
Trusts	1,782,758,371	2,301,774,868
Custodial services	2,303,108,348	2,331,446,564
Banking mandates	105,129	406,854
Collections	15,569,268	20,790,450
Credit cards	65,463,676,280	67,686,218,205
Management services	3,452,908,639	4,617,571,397
Management of investment funds	7,026,703,005	7,165,934,357
Management of pension funds	11,815,022,619	10,422,918,732
Insurance underwriting	10,263,647,124	9,102,822,271
Brokerage operations (third parties in local market)	2,213,896,010	1,966,034,720
Brokerage operations (third parties in other markets)	823,450,975	710,923,374
Transactions with related parties	102,148,406	79,098,434
Commissions charged to other affiliates due to covenants	14,180,208,049	13,694,279,476
Servibanca local interchange	25,161,084,350	25,785,221,078
Other service fees and commissions	13,111,386,604	11,923,097,853
	¢ <u>169,837,229,643</u>	<u>169,574,431,232</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(42) Other operating income

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

	2023	2022
Recovery of expenses (1)	¢ 2,879,296,658	1,069,117,975
Net valuation of other assets (Note 6)	698,955,881	577,749,420
Other income from accounts receivable	2,245,790	1,316,032
Savings accounts liquidation	175,026,318	175,701,902
Administrative charges - PMEP	245,796,988	244,354,584
Liquidation of term certificate of deposit not claimed	474,014,971	536,783,254
Liquidation of checks	400,048,789	112,414,536
Fines applied to vendors	266,763,525	299,585,565
Excess cash from human teller	186,347,808	203,967,437
Commission due to markup of BN cards	1,019,711,835	783,743,903
Other operating income	871,193,936	1,233,620,386
Decrease in provisions (2)	3,425,877,899	4,458,985,631
	¢ <u>10,645,280,398</u>	<u>9,697,340,625</u>

- (1) When the *Law of Public Administration's Salaries* (Law No. 9908) became effective, the provision for the payment of employee annuities was reversed.
- (2) During April 2022, the Bank liquidated the provision related to the payment of SEDI, which was processed under file number 15-008666-1027-CA of the Administrative Court, given that the ruling was in favor of the Bank.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(43) Expenses for assets held for sale

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

	2023	2022
Property and other assets acquired in lieu of payment	¢ -	330,911,988
Loss on sale of assets awarded in judicial auctions	4,963,231,383	7,955,732,509
Management of assets received in lieu of payment	8,425,067	38,276,720
Management of assets awarded in judicial auctions	5,524,997,488	4,712,897,038
Property and other assets acquired in lieu of payment (Note 14)	191,081,290	56,476,407
Loss on allowance for impairment of assets held for sale and per legal requirement (Note 14)	5,379,347,417	7,803,806,695
Other expenses for assets held for sale	10,589,746	9,168,740
	¢ <u>16,077,672,391</u>	<u>20,907,270,097</u>

(44) Provision expenses

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

	2023	2022
Severance benefits	¢ 57,993,578	95,454,560
Pending litigation	6,852,663,570	440,227,797
“BN Premios” points program	3,314,172,009	3,544,296,910
Case of the manager commissions with CCSS	-	85,260,821
Notice of deficiency	11,645,700,382	-
Deposit Guarantee Fund	1,464,785,370	1,424,528,336
Other provisions	-	3,200,549
	¢ <u>23,335,314,909</u>	<u>5,592,968,973</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(45) Other operating expenses

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

	2023	2022
Penalties for noncompliance with regulatory legal provisions	25,414	1,057,536
Net valuation of other liabilities (Note 6)	1,275,069,483	282,117,584
Value-added tax	1,201,858,991	1,266,084,424
Income tax on foreign remittances	6,542,854	7,725,498
8% and 15% tax on income from interest on investments in financial instruments	348,697,943	517,863,816
Property tax	300,697,092	258,566,903
Patents	1,271,720,663	564,604,530
Other local taxes	79,857,498	41,642,333
Other foreign taxes	35,889	24,928
Transfer to FINADE	2,994,377,819	1,804,040,113
Costs of microfinance insurance policies	3,368,466,623	4,415,489,245
Customer remittances	876,427,206	1,022,216,988
Amortization of deferred direct costs related to loans	580,100,897	441,362,450
Authorization abroad	2,186,169,100	2,977,680,172
Base I and II fund disbursements	17,304,771,980	22,525,225,609
Life insurance unpaid balance	8,648,777,832	10,810,207,325
Software maintenance and licenses	11,839,032,850	12,778,582,266
Sundry operating expenses	21,641,310,034	6,870,534,414
Other expenses for sundry assets	-	843,597,538
	<u>73,923,940,168</u>	<u>67,428,623,672</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(46) Personnel expenses

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

	2023	2022
Salaries and bonuses, permanent staff	¢ 78,357,330,002	75,469,542,314
Salaries and bonuses, contractors	2,408,714,837	1,044,968,472
Compensation for directors and statutory examiners	176,076,603	167,272,774
Overtime	717,709,006	563,492,018
Travel expenses	474,413,515	299,718,314
Statutory Christmas bonus	8,531,418,976	8,400,119,447
Vacation	6,752,387,675	6,411,140,843
Incentives	18,787,472	4,700,873,752
Other compensation	7,153,956,052	6,632,373,330
Severance benefits	4,925,599,360	4,878,477,984
Employer social security taxes	34,008,075,459	33,023,843,364
Refreshments	88,483,994	63,887,839
Uniforms	534,624,035	383,121,992
Training	872,356,726	791,557,796
Employee insurance	291,292,830	265,680,532
Back-to-school bonus	7,881,501,321	7,276,382,894
Mandatory retirement savings account	1,656,248,672	1,623,230,382
Other personnel expenses	566,432,969	578,589,614
	¢ <u>155,415,409,504</u>	<u>152,574,273,661</u>

(47) Other administrative expenses

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

	2023	2022
Outsourcing	¢ 31,686,406,567	30,572,122,037
Transportation and communications	3,770,933,489	3,995,838,095
Infrastructure	32,370,826,302	27,091,161,242
Overhead	22,134,925,333	21,391,622,597
	¢ <u>89,963,091,691</u>	<u>83,050,743,971</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(48) Statutory allocations

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

	2023	2022
CONAPE - 5%	¢ 4,634,499,667	4,874,761,010
CNE - 3%	3,104,056,219	3,127,097,226
INFOCOOP - 10%	7,094,104,250	6,564,431,217
Public capital pension operators	1,542,119,927	1,448,992,216
RIVM - 15%	12,369,166,773	7,474,586,004
	¢ 28,743,946,836	23,489,867,673

(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:

	2023			
	Carrying amount	Level	Carrying amount	Level
<u>Financial assets:</u>				
Cash and due from banks	¢ 1,429,362,414,317		1,429,362,414,317	
Investments at amortized cost	730,519,651,897		730,631,631,884	
Loan portfolio	5,007,320,159,008	(3)	5,078,215,432,860	(3)
	¢ 7,167,202,225,222		7,238,209,479,061	
<u>Financial liabilities:</u>				
Demand deposits from the public and financial entities	¢ 4,541,475,894,042	(3)	4,541,475,894,042	(3)
Other demand obligations with the public	14,826,284,083		14,826,284,083	
Term deposits from the public and financial entities	2,493,784,423,797	(3)	2,469,749,126,024	(3)
	¢ 7,050,086,601,922		7,026,051,304,149	

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

	2022			
	Carrying amount	Level	Carrying amount	Level
<i><u>Financial assets:</u></i>				
Cash and due from banks	¢ 1,470,874,684,814		1,470,874,684,814	
Investments at amortized cost	840,653,764,943		820,095,244,824	
Loan portfolio	4,771,658,426,160	(3)	4,947,318,927,889	(3)
	¢ <u>7,083,186,875,917</u>		<u>7,238,288,857,527</u>	
<i><u>Financial liabilities:</u></i>				
Demand deposits from the public and financial entities	¢ 4,380,381,359,979	(3)	4,380,381,359,979	(3)
Other demand obligations with the public	16,272,444,040		16,272,444,040	
Term deposits from the public and financial entities	2,574,600,019,571	(3)	2,516,381,412,394	(3)
	¢ <u>6,971,253,823,590</u>		<u>6,913,035,216,413</u>	

Fair value estimates

i. *Valuation techniques and significant unobservable inputs*

The following assumptions were used by management 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, 2023 and 2022.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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:

		2023			
		Level 1	Level 2	Level 3	Total
FVPTL	¢	1,061,437,041	18,643,267,761	3,816,708,183	23,521,412,985
FVOCI		614,745,008,541	-	-	614,745,008,541
Derivative financial instruments		-	-	102,383,490	102,383,490
		2022			
		Level 1	Level 2	Level 3	Total
FVPTL	¢	4,057,391,272	16,071,214,347	4,305,251,883	24,433,857,502
FVOCI		585,704,089,628	-	-	585,704,089,628
Derivative financial instruments		-	-	16,413,585	16,413,585
Term obligations with foreign financial entities	¢	-	-	103,761,660,525	103,761,660,525

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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:

2023				2022			
	FVTPL	Derivative financial instruments	Term obligations with foreign financial entities	FVTPL	Derivative financial instruments	Term obligations with foreign financial entities	
Opening balance	¢ 4,305,251,883	-	103,761,660,525	4,614,634,425	7,723,704,438	212,580,207,607	
Valuation	51,998,534	20,902,320	1,145,892,787	1,945,603	(7,205,878,085)	(7,637,697,906)	
Amortizations	-	-	(856,607,365)	-	-	(590,578,809)	
Exchange differences	(540,542,234)	81,481,170	(104,050,945,946)	(311,328,145)	(501,412,768)	(100,590,270,367)	
Closing balance	¢ 3,816,708,183	102,383,490	-	4,305,251,883	16,413,585	103,761,660,525	

(Continued)

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, 2023								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
ASSETS								
Cash and due from banks	€ 1,427,478,348,976	1,310,627,112	273,352,269	603,687,293	47,891,047	1,429,713,906,697	351,492,391	1,429,362,414,306
Investments in financial instruments	1,292,816,998,324	63,609,949,013	11,398,553,200	14,203,406,561	7,626,194,654	1,389,655,101,752	35,312,000	1,389,619,789,752
Loan portfolio, net	4,883,467,583,178	-	-	-	-	4,883,467,583,178	5,948,475,198	4,877,519,107,980
Accounts and fees and commissions receivable, net	1,159,632,280	163,526,824	116,127,164	1,444,995,345	653,069,266	3,537,350,879	60,763,339	3,476,587,540
Fees and commissions receivable	443,505,049	24,135,386	78,687,109	1,065,354,605	645,994,893	2,257,677,042	57,311,962	2,200,365,080
Accounts due from related parties	22,162,363	3,411,610	-	-	54,050	25,628,023	3,451,381	22,176,642
Deferred tax and income tax receivable	133,040,592	113,097,858	36,247,812	1,182,106,328	7,020,323	1,471,512,913	-	1,471,512,913
Other accounts receivable	8,058,570,058	22,881,969	6,423,172	(693,884,721)	-	7,393,990,478	-	7,393,990,478
Accrued interest receivable	2,012,794	-	-	-	-	2,012,794	-	2,012,794
Allowance for impairment	(7,499,658,577)	-	(5,230,928)	(108,580,869)	-	(7,613,470,374)	-	(7,613,470,374)
Assets held for sale, net	36,457,157,242	-	-	-	-	36,457,157,242	-	36,457,157,242
Investments in other companies	117,920,885,136	30,000,000	-	-	-	117,950,885,136	49,524,446,248	68,426,438,889
Property, furniture and equipment, net	236,869,106,481	353,606,989	507,140,214	535,436,073	362,521,354	238,627,811,111	-	238,627,811,111
Other assets	40,260,754,603	962,184,229	591,819,229	222,581,426	207,917,528	42,245,257,015	-	42,245,257,015
TOTAL ASSETS	€ 8,036,430,466,220	66,429,894,167	12,886,992,076	17,010,106,698	8,897,593,849	8,141,655,053,010	55,920,489,176	8,085,734,563,834
LIABILITIES AND EQUITY								
LIABILITIES								
Obligations with the public	€ 6,450,404,259,373	-	-	-	-	6,450,404,259,373	-	6,450,404,259,373
Obligations with BCCR	147,587,061,477	-	-	-	-	147,587,061,477	-	147,587,061,477
Obligations with entities	410,199,092,561	49,610,575,303	332,736,607	114,509,786	312,400,684	460,569,314,941	6,329,489,747	454,239,825,194
Accounts payable and provisions	141,885,730,532	1,103,572,359	855,523,447	2,307,538,327	1,063,284,036	147,215,648,701	60,763,348	147,154,885,353
Other liabilities	33,117,169,170	-	-	-	-	33,117,169,170	5,789,843	33,111,379,327
Subordinated obligations	59,065,779,037	-	-	-	-	59,065,779,037	-	59,065,779,037
TOTAL LIABILITIES	€ 7,242,259,092,150	50,714,147,662	1,188,260,054	2,422,048,113	1,375,684,720	7,297,959,232,699	6,396,042,938	7,291,563,189,761

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2023								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
EQUITY								
Share capital	172,237,030,102	6,600,000,000	5,000,000,000	7,537,839,547	369,700,000	191,744,569,649	19,507,539,547	172,237,030,102
Non-capitalized capital contributions	-	-	-	1,357,085,462	-	1,357,085,462	1,357,085,462	-
Equity adjustments	80,711,724,550	(7,541,086)	48,910,223	1,489,953,692	-	82,243,047,379	1,531,322,829	80,711,724,550
Capital reserves	422,198,198,610	1,320,000,000	898,628,741	300,000,000	73,940,000	424,790,767,351	2,491,197,486	422,299,569,865
Prior year retained earnings	32,628,167,802	6,171,942,091	3,267,127,498	2,283,216,471	2,259,916,545	46,610,370,410	14,083,573,861	32,526,796,549
Income for the year	37,771,657,780	1,631,345,498	2,484,065,560	1,619,963,412	4,818,352,596	48,325,384,846	10,553,727,064	37,771,657,782
FOFIDE	48,624,595,226	-	-	-	-	48,624,595,226	-	48,624,595,226
TOTAL EQUITY	794,171,374,070	15,715,746,506	11,698,732,022	14,588,058,584	7,521,909,141	843,695,820,323	49,524,446,249	794,171,374,074
TOTAL LIABILITIES AND EQUITY	8,036,430,466,220	66,429,894,168	12,886,992,076	17,010,106,697	8,897,593,861	8,141,655,053,022	55,920,489,187	8,085,734,563,836
Debit memoranda accounts	411,346,553,899	148,889,322	-	36,146,882	-	411,531,590,103	-	411,531,590,103
Income from cash and due from banks and financial instruments	2,842,249,896,680	660,611,848	-	-	-	2,842,910,508,528	-	2,842,910,508,528
Trust liabilities	64,241,286,375	9,235,170	-	-	-	64,250,521,545	-	64,250,521,545
Trust equity	2,778,008,610,305	651,376,678	-	-	-	2,778,659,986,983	-	2,778,659,986,983
Other debit memoranda accounts	31,107,077,262,393	1,111,429,293,218	682,701,900,813	2,546,790,872,490	-	35,447,999,328,914	-	35,447,999,328,914

As of December 31, 2023								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage F	Total	Eliminations and reclassifications	Consolidated
Finance income	587,617,867,327	5,972,731,947	1,121,128,629	1,122,888,326	540,199,104	596,374,815,333	13,003,947	596,361,811,386
Finance costs	294,327,653,184	3,546,438,950	176,098,522	221,865,718	53,794,818	298,325,851,192	13,003,947	298,312,847,245
Allowance expense	41,958,971,581	91,970,074	16,120,348	75,032,948	13,430,334	42,052,107,126	-	42,052,107,126
Income from recovery of assets	21,873,854,810	239,190,594	59,239,952	74,498,222	20,535,255	22,267,318,833	-	22,267,318,833
FINANCE INCOME	273,308,515,531	2,573,513,517	988,149,711	900,487,882	493,509,207	278,160,757,689	-	278,160,757,689
Other operating income	202,122,778,117	5,002,764,072	7,040,614,822	11,859,278,262	10,052,249,597	236,077,684,870	13,002,804,638	223,074,880,232
Other operating expenses	153,331,996,340	1,281,813,933	615,217,548	2,215,782,682	162,292,345	157,607,102,848	2,298,878,497	155,308,224,351
GROSS OPERATING INCOME	321,774,451,761	6,294,463,656	7,413,546,985	10,543,983,462	10,383,466,459	356,631,339,711	10,703,926,141	345,927,413,570
Personnel expenses	141,990,726,493	3,184,423,201	2,802,441,818	4,709,213,924	2,728,604,068	155,415,409,504	-	155,415,409,504
Other administrative expenses	87,315,159,315	497,168,202	841,454,028	1,000,371,707	459,137,516	90,113,290,768	150,199,077	89,963,091,691
Total administrative expenses	229,305,885,808	3,681,591,403	3,643,895,846	5,709,585,631	3,187,741,584	245,528,700,272	150,199,077	245,378,501,195
NET OPERATING INCOME BEFORE STATUTORY ALLOCATIONS AND TAXES	92,689,993,340	2,612,872,255	3,769,651,140	4,834,397,831	7,195,724,868	111,102,639,439	10,553,727,064	100,548,912,375
Income tax	30,580,220,731	903,140,590	1,172,496,047	1,449,439,072	2,161,500,526	36,266,796,966	-	36,266,796,966
Decrease in income tax	2,233,489,214	-	-	-	-	2,233,489,214	-	2,233,489,214
Statutory allocations	26,571,604,041	78,386,168	113,089,534	1,764,995,346	215,871,746	28,743,946,835	-	28,743,946,835
INCOME FOR THE YEAR	37,771,657,782	1,631,345,497	2,484,065,559	1,619,963,413	4,818,352,596	48,325,384,852	10,553,727,064	37,771,657,785

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

As of December 31, 2022								
	Bank	Brokerage Firm	Investment Fund Manager	Pension Fund Manager	Insurance Brokerage Firm	Total	Eliminations and reclassifications	Consolidated
<i>ASSETS</i>								
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 due from related parties	14,156,057	20,637,944	-	318,920	-	35,112,921	3,451,351	31,661,570
Deferred tax and income tax receivable	145,577,899	140,496,383	90,394,248	20,522	37,779,202	414,268,254	(20,165,502)	434,433,756
Other accounts 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
Accrued interest receivable	725,933	-	-	-	-	725,933	-	725,933
Allowance for impairment	(4,258,988,840)	-	(6,314,730)	(64,379,505)	-	(4,329,683,075)	-	(4,329,683,075)
Assets held for sale, net	37,495,457,395	-	-	-	-	37,495,457,395	-	37,495,457,395
Investments in other companies	118,834,235,877	30,000,000	-	-	-	118,864,235,877	45,497,536,302	73,366,699,575
Property, furniture and equipment, net	204,413,069,154	496,085,425	545,547,815	502,107,331	411,456,107	206,368,265,833	-	206,368,265,833
Other assets	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
TOTAL 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
<i>LIABILITIES AND EQUITY</i>								
<i>LIABILITIES</i>								
Obligations with the public	€ 6,142,055,961,261	-	-	-	-	6,142,055,961,261	-	6,142,055,961,261
Obligations with BCCR	166,961,956,341	-	-	-	-	166,961,956,341	-	166,961,956,341
Obligations with entities	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
Accounts payable and provisions	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
Other liabilities	30,510,993,847	-	-	-	-	30,510,993,847	14,114,640	30,496,879,207
Subordinated obligations	68,908,170,318	-	-	-	-	68,908,170,318	-	68,908,170,318
TOTAL LIABILITIES	€ 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(51) Contingencies

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

	Number of cases		Stage	Total estimated amount	
	2023	2022		2023	2022
Banco Nacional de Costa Rica	273	311	First instance	¢ 48,572,060,843	58,176,62,103
	18	15	Second instance	127,080,500	25,909,357,208
	43	58	Appeal	12,922,969,377	16,560,859,812
	<u>334</u>	<u>384</u>		<u>61,622,110,720</u>	<u>100,646,869,123</u>
BN Vital	7	7	First instance	36,146,883	36,146,883
	2	2	Appeal	-	-
	<u>9</u>	<u>9</u>		<u>36,146,883</u>	<u>36,146,883</u>
BN Valores	1	1	First instance	148,889,322	19,719,937
BN SAFI	0	0	First instance	-	-
BN Corredora	0	1	First instance	-	-
	<u>344</u>	<u>395</u>	(Note 22)	¢ <u>61,807,146,925</u>	<u>100,706,235,943</u>

The legal actions filed against 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	
2023	2022		2023	2022
227	293	First instance	¢ 82,114,453,888	74,364,573,951
1	1	Second instance	33,449,683	375,839,600
1	2	Appeal	12,770,124,232	2,844,233,566
<u>229</u>	<u>296</u>		¢ <u>94,918,027,803</u>	<u>77,584,647,117</u>

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Additionally, the Bank was a defendant in one lawsuit related to the payment of SEDI. The file for such proceedings is File No. 5-008666-1027-CA of the Administrative Court, dated November 20, 2015, received on December 15, 2015. As of December 31, 2023, the Bank settled the provision since the sentence for that lawsuit was in favor of the Bank.

On October 24, 2023, the Bank filed a claim before the Public Prosecutor's Office for the theft of money from the treasury, by means of file No. 23-000369-1218-PE of the Assistant Prosecutor's Office of Integrity, Transparency and Anti-corruption. The Bank has provided all of the evidence requested by the Prosecutor's Office and has actively collaborated in the investigation. The case is currently in the investigation phase.

The following lawsuits are also worth noting:

- File No.: 08-000232-0419-AG.
 - ✓ Statement of the facts: These proceedings were filed by the Bank against Surcoop, R.L., seeking to nullify the auction, awarding and registration of lots processed through file No. 97-010656-1701 AG of the Agrarian Court of Corredores.
 - ✓ Current status: The judgment was in favor of the Bank.
 - ✓ Latest activity: Through Vote No. 1859-F-S1-2021, the First Chamber confirmed the appealed ruling. The proceedings are currently in the execution of judgment stage.
- File No.: 11-001042-0612-PE.
 - ✓ Court: Office of Economic, Tax, and Customs Crimes
 - ✓ Statement of the facts: Irregularities were reported regarding Zion company and the process to grant credits to that company, misuse of resources, presentation of fake documents to the Bank to obtain credit approval, and the alleged participation of some of the employees of the Bank in the facts.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ✓ Latest activity: The order of November 2, 2021, at 15:01, set the date for the preliminary hearing from September 2 to November 29, 2024.
- ✓ Current status: A “request for accusation and order to proceed to trial” was filed in this case. The Bank filed a complaint and a civil lawsuit. Civil lawsuits have been filed against the Bank.
- File No. 14-003379-1027-CA
 - ✓ Statement of the facts: The plaintiffs seek the payment of damages by the Bank to all plaintiffs and compensation for pain and suffering caused due to the inability to acquire decent housing, as a result of apparent anomalies regarding the management of credits for Grupo Zion, S.A. to build the Bariloche Real condominium. Additionally, it has had media coverage.
 - ✓ On November 15, 2021, a hearing for the correction of procedural errors was held, in which the Court made a series of findings and reviewed the new evidence filed by the plaintiff. The Court decided to suspend the hearing and return the proceedings to the processing stage so that the corresponding corrections can be made and to include the legal entity PROSUM. The payment of fees to the expert witness was processed, but it is premature due to the status of the proceedings.
 - ✓ Current status: The proceedings have been returned to the preliminary hearing phase.
- File No.: 15-010837-1027-CA (joined with 13-003698-1027-CA)
 - ✓ Court: Contentious Administrative Court.
 - ✓ Statement of the facts: Caja Costarricense del Seguro Social (CCSS, Costa Rican Social Security) made an administrative charge to the Bank based on Article 78 of the *Employee Protection Law* and Executive Decree No. 37127-MTSS. However, it used as taxable base for the parafiscal contribution the gross profit of the Bank and its consolidated financial statements, not the individual financial statements, ignoring the statutory allocation established in the Internal Regulations of the National Banking System (IRNBS).

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- ✓ Latest activity: An extraordinary appeal for review by a higher court was filed in due time and form. A resolution by the First Chamber of the Supreme Court of Justice is pending.
- ✓ Current status: Through judgment No. 80-2022-VIII of Contentious Administrative Court of the Second Judicial Circuit of San José, at 13:20 of August 30, 2022, the complaint was partially admitted, ordering CCSS to return the excess amounts related to Article 78 of the *Employee Protection Law*, corresponding to the difference between the calculation made based on the consolidated financial statements of the State-owned commercial banks and the individual financial statements thereof, along with the legal interest derived from the reimbursement under protest, to be calculated from the date when this ruling becomes final to the date when the payment is made. Notwithstanding the foregoing, the Court set the taxable base as the net profit before income tax and statutory allocations, which were sufficient grounds to file an extraordinary appeal for review by a higher court to take up the matter of the taxable base for the calculation, since it considered that the Court made a mistake in this regard.
- File No.: 18-011428-1027-CA
 - ✓ Court: Contentious Administrative Court
 - ✓ Statement of the facts: The Bank filed ordinary administrative proceedings against ICE for the termination of the contract for the construction of Capulín San Pablo Hydroelectric Project, in which the Bank is a creditor of the developer, Hidrotárcoles S.A. The Bank claims that due to the termination of the contract with the company, ICE must recognize the contractor's debt with the Bank.
 - ✓ Latest activity: Awaiting the oral public trial, set for May 8 and 9, 2024.
 - ✓ Current status: The preliminary hearing was held, in which documentary and testimonial evidence submitted by the parties was admitted. The trial was set for May 8 and 9, 2024.

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(52) Emergency caused by COVID-19

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

The Bank's management will continue to monitor and modify its operating and financial strategies to mitigate the potential risks to our business.

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

As a result, as of December 31, 2023, the loan portfolio that required at least one modification to the originally agreed conditions amounts to ¢1,312,692,854,100 representing 26.44% of the total loan portfolio (2022: ¢1,598,146,402,194 representing 33.96% of the total loan portfolio).

(Continued)

BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
Agriculture and forestry	27,930,051,024	38,043,804,589
Trade	101,587,782,118	139,906,885,549
Construction	23,746,122,736	39,084,698,917
Consumer or personal loans	78,475,192,293	104,770,214,017
Electricity, water, sanitation and other related sectors	140,834,903,322	24,834,021,726
Mining	262,574,377	56,579,482,565
Livestock, hunting and fishing	19,365,099,282	428,764,218,666
Industry	42,531,009,820	28,010,476,880
Services	345,622,322,816	30,690,792,689
Financial services	23,249,333,712	103,169,667,550
Transportation, communication and storage	15,643,776,134	454,735,064,809
Tourism	82,556,612,628	149,277,954,802
Housing	410,888,073,838	279,119,435
	<u>1,312,692,854,100</u>	<u>1,598,146,402,194</u>
Accounts and accrued interest receivable	<u>2,359,575,276</u>	<u>2,433,088,971</u>
Loans restructured due to COVID-19	<u>1,315,052,429,376</u>	<u>1,600,579,491,165</u>
Allowance for doubtful accounts	<u>(37,413,455,849)</u>	<u>(46,291,100,287)</u>
	<u>¢ 1,277,638,973,527</u>	<u>1,554,288,390,878</u>

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

	2023	2022
Current	1,160,232,297,800	1,440,921,652,002
1 to 30 days	38,977,129,524	35,576,424,249
31 to 60 days	45,737,237,629	45,012,045,725
61 to 90 days	14,669,105,915	20,576,319,470
91 to 120 days	5,263,928,539	3,188,010,948
121 to 150 days	2,593,238,158	16,256,314,729
In legal collection	<u>45,219,916,535</u>	<u>36,615,635,071</u>
	<u>1,312,692,854,100</u>	<u>1,598,146,402,194</u>
Accounts and accrued interest receivable	<u>2,359,575,276</u>	<u>2,433,088,971</u>
Loans restructured due to COVID-19	<u>1,315,052,429,376</u>	<u>1,600,579,491,165</u>
Allowance for loan losses	<u>(37,413,455,849)</u>	<u>(46,291,100,287)</u>
Loan portfolio, net	<u>¢ 1,277,638,973,527</u>	<u>1,554,288,390,878</u>

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	2023	2022
Collateral	¢ 21,052,318,468	35,686,788,099
Surety	9,655,517,340	15,149,890,641
Assignment of loans	39,010,985,819	49,919,949,933
Back-to-back	1,915,900,090	2,664,853,940
Mortgage	593,164,016,788	682,199,540,249
Trust	102,101,169,773	146,715,324,573
Surety - Mortgage	124,090,497,068	154,986,406,086
Surety - Trust	143,549,822,378	197,714,226,031
Other	227,438,307,702	252,800,353,245
Not assigned	2,349,998,065	2,809,295,736
Surety - Collateral	2,478,302,178	5,387,269,340
Collateral - Mortgage	608,650,253	858,234,889
Collateral - Securities	-	8,207,802
Surety - Collateral - Mortgage	2,042,793,834	2,412,966,802
Securities	21,413,418,170	25,868,924,298
Mortgage - Trust	90,917,308	93,013,458
Surety - Securities	25,399,658	48,426,591
Collateral - Trust	21,704,839,208	22,822,730,481
	<u>1,312,692,854,100</u>	<u>1,598,146,402,194</u>
Accounts and accrued interest receivable	<u>2,359,575,276</u>	<u>2,433,088,971</u>
Loans restructured due to COVID-19	1,315,052,429,376	1,600,579,491,165
Allowance for loan losses	<u>(37,413,455,849)</u>	<u>(46,291,100,287)</u>
Loan portfolio, net	<u>¢ 1,277,638,973,527</u>	<u>1,554,288,390,878</u>

As of December 31, 2023, the amount of ¢1,312,692,854,100 maintains temporary credit conditions, which represents 26.44% of the total loan portfolio (2022: ¢1,598,146,402,194, representing 33.96% of the loan portfolio).

a) Operating measures

- The Bank constantly encourages customers to use digital channels: BN MOVIL, SINPE MOVIL, webpage and Contact Center.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

- As of the date of this report, the Bank has 3,441 employees working from home, representing 59% of total employees. All positions that permit work from home have been implemented.
- Some of the auto banks that were not in operation were activated once again.
- The Bank's Emergency Institutional Commission meets continuously to implement the measures recommended by the Ministry of Health.

b) Measures to support customers with credits

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

As of December 31, 2023, there are no active extensions as a result of loan restructuring due to COVID-19.

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

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

c) Liquidity measures

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

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank's Treasury Office has daily reports that allow the Bank to know about the liquidity status to make timely decisions and monitor regulatory indicators, such as term matching and the liquidity coverage ratio (LCR), for which capacity, appetite and tolerance levels are defined, and for which the need for differentiated actions 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 bond portfolio, which has been affected by the crisis, making timely and proactive decisions according to the different perspectives and analysis of international specialists. Locally, quotes and negotiations of securities in the primary and secondary market are monitored daily, by participating in real time in the brokerage sessions of the National Stock Exchange. As of December 31, 2023, recurring to the sale of securities measured at amortized cost is not considered necessary and is not expected in the short term.

(53) Relevant events

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

As of December 31, 2021, the Bank went through 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 30, 2022, the Bank received a notice from the tax auditors to attend the final hearing to deliver results through the document DGCN-SF-PD-25-2021-26-331-03. It took place on October 10, 2022.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

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

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

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

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

Through resolution DGCN-373-DF-DT-UT-2022, issued at 8:55 of December 15, 2022, the National Large Taxpayer Division summoned the Bank before the Tax Court to present its damages regarding the appeal filed. Consequently, on October 3, 2023, the writ with the response was submitted before said court.

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BANCO NACIONAL DE COSTA RICA AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Deferred term operations

Due to the COVID-19 national emergency, 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, 2023, 2,842 loan operations were placed under this modality, applying a discount to the interest rate on the loans in colones in the amount of ¢142,722,000,000, reaching an average rate of the operations already processed of 6.00%. The remaining average maturity term is 10.83 years.

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

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

Pursuant to Article 8 of the *Regulation of the management of the Deposit Guarantee Fund and other guarantee funds*, entities that contribute to the DGF shall make an annual contribution that may not exceed 0.15% of the deposits guaranteed by the entity.

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

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

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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.

(54) Reclassification of the loan portfolio in legal collection

As of the December 31, 2023 close, there were reclassifications of the loan portfolio in legal collection to the past due loans account, in conformity with the chart of accounts of CONASSIF Directive 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, 2023, the amount of ¢31,049,417 was reclassified (2022: ¢3,678,114,187).

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

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

The Conglomerate's management does not determine the financial measurement of the existing differences since it considers that due to the accounting basis used, described in Note 2, which is different from IFRS, makes this determination impractical.

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) 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.

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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.
- c. 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 SUGEF Directive 30-18, that would be used until the resolution or settlement of the tax obligation.

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

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

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

At each monthly 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.

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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.

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

- a) For the application of IFRS 9, specifically the measurement of ECL, the prudential regulation issued by CONASSIF continues to be used, applicable to the loan portfolio, accounts receivable and stand-by credits granted, until the standard is modified.
- b) For the measurement of ECL on money market investment funds, for the portion of the portfolio of financial instruments classified as at amortized cost, CONASSIF established a threshold that determines whether those ECL should be recorded, as provided by Article 36 BIS and Transition Provision XV of the *General Regulation of Corporations and Investment Funds*, which includes a graduality table that establishes the percentages of deviation of the value of the investment portfolio. IFRS 9 does not indicate the possibility of establishing thresholds or minimum allowances for financial instruments. .

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

- e) 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.

- f) Revised Conceptual Framework

IASB published a revised version of the Conceptual Framework for Financial Reporting with a balance between high-level concepts and details provided that make it a practical tool for the development of new standards, to ensure that the standards to be issued are conceptually consistent and that similar transactions are treated in the same way. The content of the revised Conceptual Framework includes better definitions, guidance on the scope of the elements of the financial statements, measurement, among others. The new version contains eight chapters and a glossary and restates that the framework is not a standard. It is effective starting January 2020. This Conceptual Framework has not been considered by CONASSIF.

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g) Sustainability standards:

The IFRS Foundation comprises the IASB, which issues the International Financial Reporting Standards (IFRS Accounting), as indicated above, and the International Sustainability Standards Board (ISSB), which develops the standards for reporting on the impact of climate change and sustainability.

These ISSB standards are designed to ensure that companies provide comprehensive sustainability information along with the financial statements issued during their regular reporting periods. On June 26, 2023, ISSB issued the two first standards that will be effective internationally from January 1, 2024.

The first standard of IFRS Sustainability Disclosure Standards (IFRS S1) sets out the *General Requirements for Disclosure of Sustainability-related Financial Information*.

The second standard of the IFRS Sustainability Disclosure Standards (IFRS S2) is about *Climate-related Disclosures*.

IFRS S1 and S2 were adopted by the Costa Rican Institute of Public Accountants as of January 1, 2024. Their application is voluntary as of January 1, 2024 and they will be mandatory as follows:

- Companies with a public obligation of accountability that are supervised and regulated by CONASSIF, will report in 2026 the information on the fiscal year ended December 31, 2025.
- Companies categorized as large taxpayers before the Tax Administration that are not part of subsection a), will report in 2027 the information on tax year ended December 31, 2026.
- Other entities outside of the categories mentioned in subsections a) and b) that apply IFRS can adopt IFRS S1 AND S2 during the period that the entity considers convenient.
- For entities that apply IFRS for SMEs, it will not be mandatory until it is required by the standard.

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Entities usually prepare non-financial reports on their sustainability programs, which will be substituted by the entrance into effect of this regulation once it is adopted by CONASSIF.

(56) Disclosure of economic impact of departure from IFRS

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

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