BANCO NACIONAL DE COSTA RICA

Financial Information required by the
Superintendency General of Financial Entities

Separate 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.
Edificio KPMG
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Independent Auditors' Report

To the Board of Directors of Banco Nacional de Costa Rica

Opinion

We have audited the separate financial statements of Banco Nacional de Costa Rica (the Bank), which comprise the separate statement of financial position as of December 31, 2023, and the separate 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 separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Bank as of December 31, 2023, and of its unconsolidated financial performance and its unconsolidated 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) and the Superintendency General of Financial Entities (SUGEF).

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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code), along with the ethical requirements that are relevant to our audit of the separate 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 separate financial statements, which describes the basis of accounting. The separate financial statements have been prepared in accordance with the financial reporting provisions issued by CONASSIF and SUGEF. As a result, the separate financial statements may not be suitable for other purposes. 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	
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). According to this regulation, the allowance for loan losses is determined through the application of pre-established percentages to each borrower, according to their risk rating, which considers the days of arrears, creditworthiness, and historical payment behavior. The elements to be considered as basis for the allowance are: the balance of the loan for each borrower, current interest, and stand-by credits. The allowance percentage is applied to the net balance not covered by collaterals eligible for risk mitigation, in conformity with the mitigation percentages established in the aforementioned regulation.	Our procedures in this area included: • assessing the design and operating efficiency of IT controls on the information systems used by the Bank's management to calculate arrears in the loan portfolio; performing detailed testing of the entire loan portfolio to confirm the days of arrears; • testing the transfer of data between the interfaces of the loan information systems and the systems used by the Bank to determine the borrower classification and to calculate the allowance for loan losses; • recalculating the minimum allowance for loan losses on direct loans and stand-by credits, based on the information furnished by the Bank's management; testing the integrity of data for this information;

The key audit matter	How the matter was addressed in our audit
	• performing detailed testing of a sample of borrowers, to confirm whether the Bank's management complied with the analysis of creditworthiness required by the regulation, as well as the assessment of the collaterals that can be used to mitigate credit risk. This procedure included an assessment of the work performed by external experts on the valuation of collaterals; • comparing the level of historical payment behavior used by the Bank's management with the information provided by SUGEF's Credit Information Center. • recalculating and comparing the risk rating assigned by the Bank's management (recorded in the credit subledger) to KPMG's recalculation.

Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Separate Financial Statements
Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure, and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 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: 4596
Cédula: 108080067
Nombre del Cliente: BNCR IND
Identificación del cliente: 4000001021
Dirigido a: Bernardo Alfaro Araya
Fecha: 05-02-2024 01:01:52 PM
Tipo de trabajo: Informe de Auditoría

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

MYNOR PACHECO SOLANO
Contador Público Autorizado
No. 4596
COSTA RICA

COSTA RICA TIMBRE
COLONES

Código de Timbre: CPA-1000-8947

23 de febrero de 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 affixed to the original document.

BANCO NACIONAL DE COSTA RICA
SEPARATE 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**	**1,427,478,348,976**	**1,469,189,656,840**
Cash		102,717,269,595	120,940,679,142
BCCR		925,536,846,247	875,012,474,907
Local financial entities		208,823,828	216,780,104
Foreign financial entities		258,367,246,141	339,552,738,856
Notes payable on demand		7,794,869,384	7,446,883,299
Restricted cash and due from banks		132,853,293,781	126,020,100,532
Investments in financial instruments	**10**	**1,292,816,998,325**	**1,386,816,251,137**
At fair value through profit or loss (FVTPL)		19,041,719,976	17,806,516,046
At fair value through other comprehensive income (FVOCI)		528,307,163,689	517,149,407,411
At amortized cost		726,259,042,468	836,328,403,553
Derivative financial instruments	**11**	364,305,137	16,413,585
Accrued interest receivable		20,073,599,275	18,124,680,491
(Allowance for impairment of investments in financial instruments)		(1,228,832,220)	(2,609,169,949)
Loan portfolio	**12**	**4,883,467,583,179**	**4,632,292,699,015**
Current		4,668,619,230,398	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**	**1,159,632,279**	**796,798,710**
Fees and commissions receivable		443,505,049	408,251,262
Accounts receivable for transactions with related parties		22,162,363	14,156,057
Deferred tax and income tax receivable		133,040,592	145,577,899
Other receivables		8,058,570,058	4,487,076,399
Accrued interest receivable		2,012,794	725,933
(Allowance for impairment of accounts and fees and commissions receivable)		(7,499,658,577)	(4,258,988,840)
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 and per legal requirements)		(62,186,753,305)	(60,686,913,169)
Investments in other companies, net	**15**	**117,920,885,140**	**118,834,235,877**
Property and equipment, net	**16**	**236,869,106,481**	**204,413,069,154**
Other assets	**17**	**40,260,754,602**	**52,717,345,955**
Deferred charges		22,377,026	14,330,485,937
Intangible assets		4,960,138,182	8,489,096,778
Other assets		35,278,239,394	29,897,763,240
TOTAL ASSETS		**8,036,430,466,224**	**7,902,555,514,083**

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

Continued…

BANCO NACIONAL DE COSTA RICA
SEPARATE 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**	**410,199,092,560**	**627,435,906,762**
Demand obligations		60,638,601,676	45,523,084,756
Term obligations		347,589,825,285	579,388,511,075
Other obligations with entities		-	(103,269,735)
Finance charges payable		1,970,665,599	2,627,580,666
Accounts payable and provisions		**141,885,730,532**	**126,716,645,152**
Provisions	**22**	22,995,417,491	10,727,740,204
Deferred tax	**21-b**	16,185,259,681	7,051,598,188
Other sundry accounts payable	**23**	102,705,053,360	108,937,306,760
Other liabilities	**24**	**33,117,169,170**	**30,510,993,847**
Deferred income		88,687,508	100,946,981
Other liabilities		33,028,481,662	30,410,046,866
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		**7,242,259,092,149**	**7,162,589,633,681**
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**	**33,719,121,136**
Income for the year		**37,771,657,785**	**37,316,763,826**
Capital contributions or special funds	**26-c**	**48,624,595,226**	**44,436,595,670**
TOTAL EQUITY		**794,171,374,075**	**739,965,880,402**
TOTAL LIABILITIES AND EQUITY		**8,036,430,466,224**	**7,902,555,514,083**
DEBIT MEMORANDA ACCOUNTS	**27**	**411,346,553,898**	**443,690,359,134**
TRUST ASSETS	**28**	**2,842,249,896,680**	**3,309,709,383,959**
TRUST LIABILITIES		**64,241,286,375**	**83,298,961,129**
TRUST EQUITY		**2,778,008,610,305**	**3,226,410,422,830**
TRUST MEMORANDA ACCOUNTS		**6,777,474,248**	**222,429,362,159**
OTHER DEBIT MEMORANDA ACCOUNTS	**29**	**31,107,077,262,392**	**27,484,970,600,693**
Own debit memoranda accounts		12,524,651,272,337	10,113,362,670,858
Third-party debit memoranda accounts		1,668,740,260,281	1,811,845,820,166
Own debit memoranda accounts for custodial activities		583,156,384,372	486,930,151,517
Third-party debit memoranda accounts for custodial activities		16,330,529,345,402	15,072,831,958,152

ROSAYSELLA ULLOA VILLALOBOS (FIRMA) Firmado digitalmente por ROSAYSELLA ULLOA VILLALOBOS (FIRMA) Fecha: 2024.03.19 10:52:22 -06'00'

Rosaysella Ulloa Villalobos
General Manager a.i.

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Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA) Digitally signed by RICARDO ALONSO ARAYA JIMENEZ (FIRMA) Date: 2024.03.19 09:25:05 -06'00'

Ricardo Araya Jiménez
General Auditor

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

BANCO NACIONAL DE COSTA RICA
SEPARATE 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	30	14,672,806,141	6,022,426,302
Investments in financial instruments	30	81,630,475,081	51,064,381,189
Loan portfolio	31	477,338,620,776	399,102,186,590
Gain on financial instruments at FVTPL		424,353,544	264,530,443
Gain on financial instruments at FVOCI		6,133,529,134	1,496,873,310
Other finance income	32	7,418,082,652	13,594,755,906
Total finance income		**587,617,867,328**	**471,545,153,740**
Finance costs			
Obligations with the public	33	244,315,291,589	130,670,765,368
Obligations with BCCR		1,293,225,824	1,469,023,262
Obligations with financial and non-financial entities	34	31,156,150,177	31,353,291,466
Subordinated, convertible and preferred obligations		6,684,432,671	5,786,919,313
Loss on foreign exchange differences and DU, net	6-d	978,990,289	467,828,435
Loss on financial instruments at FVTPL		1,168,101,501	461,424,631
Loss on financial instruments at FVOCI		2,751,217,447	4,125,627,840
Loss on derivative financial instruments, net	11	27,562,462	6,994,150,169
Other finance costs	35	5,952,681,223	8,249,920,246
Total finance costs		**294,327,653,183**	**189,578,950,730**
Allowance for impairment of assets	36	41,958,971,581	50,140,142,074
Recovery of assets and decrease in allowances	37	21,873,854,809	23,390,548,567
FINANCE INCOME		**273,205,097,373**	**255,216,609,503**
Other operating income			
Service fees and commissions	38	138,090,006,778	140,330,940,337
Assets held for sale		5,503,416,095	7,346,302,970
Gain on investments in other companies	8	3,297,830,866	1,948,010,230
Gain on investments in entities supervised by SUGEVAL	8	4,115,411,052	3,699,433,358
Gain on investments in entities supervised by SUPEN	8	1,619,963,413	1,426,919,471
Gain on investments in entities supervised by SUGESE	8	4,818,352,596	4,122,954,777
Foreign currency exchange and arbitrage		33,097,424,168	28,259,507,011
Other income from related parties		1,230,025,206	974,647,695
Other operating income	39	10,350,347,943	9,406,546,906
Total other operating income		**202,122,778,117**	**197,515,262,755**

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

Continued…

BANCO NACIONAL DE COSTA RICA
SEPARATE 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		39,991,613,124	40,772,657,216
Assets held for sale	**40**	16,077,672,391	20,907,270,097
Provisions	**41**	22,931,418,311	5,512,407,131
Foreign currency exchange and arbitrage		13,116,076	25,920,568
Other expenses with related parties		644,784,334	864,359,160
Other operating expenses	**42**	73,673,392,104	67,201,497,906
Total other operating expenses		**153,331,996,340**	**135,284,112,078**
GROSS OPERATING INCOME		**321,995,879,150**	**317,447,760,180**
Administrative expenses			
Personnel expenses	**43**	141,990,726,492	139,245,997,255
Other administrative expenses	**44**	87,315,159,315	80,706,542,719
Total administrative expenses		**229,305,885,807**	**219,952,539,974**
NET OPERATING INCOME BEFORE TAXES AND STATUTORY ALLOCATIONS		**92,689,993,342**	**97,495,220,206**
Current tax	**21-a**	14,640,617,850	24,328,769,631
Prior period income tax	**21-a**	14,189,237,931	14,189,237,931
Deferred tax	**21-a**	1,750,364,950	1,768,733,792
Decrease in prior-period income tax	**21-a**	1,207,402,403	-
Deferred tax income	**21-a**	1,026,086,812	1,669,440,585
Statutory allocations	**45**	26,571,604,042	21,561,155,611
INCOME FOR THE YEAR		**37,771,657,785**	**37,316,763,826**
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		(7,321,021,763)	(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		**16,433,835,887**	**(28,867,874,627)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**54,205,493,672**	**8,448,889,199**

ROSAYSELLA ULLOA VILLALOBOS (FIRMA) Firmado digitalmente por ROSAYSELLA ULLOA VILLALOBOS (FIRMA) Fecha: 2024.03.19 10:53:23 -06'00'

Rosaysella Ulloa Villalobos
General Manager a.i.

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Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA) Digitally signed by RICARDO ALONSO ARAYA JIMENEZ (FIRMA) Date: 2024.03.19 09:25:35 -06'00'

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Resultados Integral
2024-03-18 10:39:59 -0600

CONTADOR PRIVADO INCORPORADO COSTA RICA

TIMBRE 300.0 COLONES

VERIFICACIÓN: Br63qHMG
https://timbres.contador.co.cr

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF CHANGES IN EQUITY
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-period retained earnings	TOTAL
Balance at December 31, 2021		**172,237,030,102**	**93,316,808,915**	**364,737,238,098**	**41,687,504,022**	**59,538,410,067**	**731,516,991,204**
Transactions with owners booked directly in equity:							
Legal reserves		-	-	23,065,143,876	-	(23,065,143,876)	-
Other statutory reserves		-	-	(637,102,393)	-	637,102,393	-
Capital contributions in special funds		-	-	-	2,749,091,648	(2,749,091,648)	-
Total transactions with owners booked directly in equity		**-**	**-**	**22,428,041,483**	**2,749,091,648**	**(25,177,133,131)**	**-**
Comprehensive income for the year:							
Income for the year		-	-	-	-	37,316,763,826	37,316,763,826
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)**	**-**	**-**	**36,674,608,027**	**8,448,889,199**
Balance at December 31, 2022	**26**	**172,237,030,102**	**65,091,090,087**	**387,165,279,581**	**44,436,595,670**	**71,035,884,962**	**739,965,880,402**

ROSAYSELLA ULLOA VILLALOBOS (FIRMA)
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Fecha: 2024.03.19 10:54:37 -06'00'

Rosaysella Ulloa Villalobos
General Manager a.i.

ALEJANDRA MORALES CENTENO (FIRMA)
Firmado digitalmente por ALEJANDRA MORALES CENTENO (FIRMA)
Fecha: 2024.03.19 08:25:46 -06'00'

Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Digitally signed by RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
Date: 2024.03.19 09:25:55 -06'00'

Ricardo Araya Jiménez
General Auditor

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

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Cambios en el Patrimonio
2024-03-18 10:40:00 -0600

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

TIMBRE 300.0 COLONES

VERIFICACIÓN: Br63qHMG
https://timbres.contador.co.cr

BANCO NACIONAL DE COSTA RICA
SEPARATE STATEMENT OF CHANGES IN EQUITY
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-period 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**
Transactions with owners booked directly in equity:							
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		-	(7,321,021,763)	-	-	-	(7,321,021,763)
Realization of surplus from revaluation of property		-	(813,201,425)	-	-	813,201,425	-
Total comprehensive income for the year		**-**	**15,620,634,462**	**-**	**-**	**38,584,859,210**	**54,205,493,672**
Balance at December 31, 2023	**26**	**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 (FIRMA)
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Rosaysella Ulloa Villalobos
General Manager a.i.

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

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
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Ricardo Araya Jiménez
General Auditor

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

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BANCO NACIONAL DE COSTA RICA
Atención: SUGEF
Registro Profesional: 21119
Contador: MORALES CENTENO ALEJANDRA
Estado de Cambios en el Patrimonio
2024-03-18 10:40:00 -0600

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

COLEGIO DE CONTADORES PRIVADOS DE COSTA RICA
TIMBRE ₡300

TIMBRE 300.0 COLONES

VERIFICACIÓN: Br63qHMG
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BANCO NACIONAL DE COSTA RICA
SEPARATE 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	37,316,763,826
Items not requiring cash			
Depreciation and amortization		23,603,032,184	22,614,658,268
(Gain) loss on foreign exchange differences and DU, net		(86,237,108,834)	(50,327,247,891)
Loss on sale of non-financial assets		4,963,231,382	8,286,644,496
Finance income		(558,969,095,857)	(450,166,567,779)
Finance costs		167,324,949,045	100,112,519,647
Allowance for investments, net		(2,641,243,368)	(877,347,476)
Allowance for loan losses		34,172,970,867	46,950,535,780
Allowance for other accounts receivable, net		4,340,860,440	1,257,813,054
Loss on allowance for assets held for sale, net		1,555,724,764	1,791,434,781
Severance provision		(2,021,078)	(48,266,172)
Other provisions, net of payments		19,539,650,249	11,408,960,451
Share of net profit in subsidiaries and associate		(13,851,557,927)	(11,197,317,836)
Statutory allocations, net		26,571,604,042	21,561,155,611
Income tax expense	**21 -a**	27,622,453,378	38,518,007,562
Deferred tax	**21 -a**	724,278,138	99,293,207
		(313,510,614,790)	**(222,698,960,471)**
Cash flows from operating activities			
Loan portfolio		(484,576,589,365)	(316,163,140,984)
Accounts and fees and commissions receivable		5,449,821,285	(4,643,669,833)
Assets held for sale		23,622,402,924	15,688,807,330
Other assets		10,997,439,672	15,310,827,384
Obligations with the public		607,971,735,859	227,350,847,152
Obligations with BCCR and other entities		(179,919,875,512)	(154,974,052,097)
Obligations for accounts payable, fees and commissions payable and provisions		3,477,366,081	(16,796,582,993)
Other liabilities		983,328,132	4,796,290,914
		(11,994,370,924)	**(229,430,673,127)**
Income tax paid		(41,380,531,678)	(24,228,563,116)
Interest received on loan portfolio and investments		568,440,375,583	459,091,527,732
Interest paid on term obligations with the public and financial entities		(145,319,821,774)	(90,033,378,820)
Statutory allocations paid		(21,561,155,611)	(12,540,827,303)
Net cash from (used in) operating activities		**34,673,880,806**	**(119,840,875,105)**
Cash flows from investing activities			
Increase in financial instruments		(1,208,907,019,430)	(1,181,296,932,955)
Decrease in financial instruments		1,350,262,444,141	1,300,446,829,472
Accrued interest and dividends received		8,493,886,902	8,451,829,630
Acquisition of property and equipment		(28,774,010,089)	(27,033,174,866)
Sale of property and equipment		151,659,403	(139,489,307)
Acquisition of intangible assets		(1,691,992,776)	(5,292,738,836)
Net cash from investing activities		**119,534,968,151**	**95,136,323,138**
Cash flows from financing activities			
Settlement of financial obligations		(79,588,830,116)	(9,268,170,329)
New financial obligations		-	3,014,300,000
Payment of lease liabilities		(2,584,359,400)	(2,033,672,846)
Net cash used in financing activities		**(82,173,189,516)**	**(8,287,543,175)**
Net increase (decrease) in cash and cash equivalents		**72,035,659,441**	**(32,992,095,142)**
Cash and cash equivalents at beginning of year		**1,568,339,596,018**	**1,601,331,691,160**
Cash and cash equivalents at end of year	**9**	**1,640,375,255,459**	**1,568,339,596,018**

ROSAYSELLA ULLOA VILLALOBOS (FIRMA)
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Rosaysella Ulloa Villalobos
General Manager a.i.

ALEJANDRA MORALES CENTENO (FIRMA)
Firmado digitalmente por ALEJANDRA MORALES CENTENO (FIRMA)
Fecha: 2024.03.19 08:26:30 -06'00'

Alejandra Morales Centeno
General Accountant
CPI 21119

RICARDO ALONSO ARAYA JIMENEZ (FIRMA)
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Date: 2024.03.19 09:26:38 -06'00'

Ricardo Araya Jiménez
General Auditor

The notes are an integral part of these separate fi

Céd. 4000001021
BANCO NACIONAL DE COSTA RICA
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Contador: MORALES CENTENO ALEJANDRA
Estado de Flujos de Efectivo
2024-03-18 10:40:00 -0600

CONTADOR PRIVADO INCORPORADO · COSTA RICA

TIMBRE 300.0 COLONES

VERIFICACIÓN: Br63qHMG
https://timbres.contador.co.cr

(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). The Bank's registered office is located in San José, Costa Rica.

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

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

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

As of December 31, 2023, the Bank has 153 offices, 465 ATMs and 5,276 employees (2022: 153 offices, 468 ATMs and 5,232 employees). 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).

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).

(Continued)

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 the minutes of meeting 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.

(2) Basis of accounting

(a) Basis of accounting

The separate financial statements have been prepared in accordance with the accounting regulations issued by the CONASSIF and SUGEF.

With the entrance into effect of agreement CONASSIF 06-18 *Regulation on Financial Information* (RFI), the regulatory basis of accounting is updated in order to make progress in the adoption of IFRS Accounting Standards. It also includes a single body of regulations, provisions regarding the remission, presentation and publication of financial statements, providing more uniformity in the actions of the superintendencies, as well as preventing duplications.

(b) Basis of measurement

These separate financial statements have been prepared on a historical cost basis, except for financial assets and liabilities at fair value through other comprehensive income 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.

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

(3) Functional and presentation currency

These separate 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 and SUGEF.

(4) Use of estimates and judgments

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

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

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

(Continued)

a- *Judgments*

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

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

b- *Assumptions and estimation uncertainties*

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year 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 Bank has consistently applied the following accounting policies to all years presented in the separate financial statements.

(a) Foreign currency

i. Foreign currency transactions

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

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 were 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 were valued at the exchange rate of ¢582.31 to €1,00 (2022: ¢642.38 to €1.00), which is obtained by multiplying the international Reuter exchange rate by the reference rate set by BCCR for the sale of US dollars on the last business day of the month.

As of December 31, 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 exchange rates).
- 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 exchange rates).
- Income and expenses have been translated at average exchange rates in effect for the year.

(b) Financial instruments

(i) Recognition and initial measurement

The Bank 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 Bank becomes a party to the contractual provisions of the instrument.

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

(ii) *Classification and subsequent measurement*

Financial assets

Classification

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

Financial assets are not reclassified subsequent to their initial recognition, unless the Bank 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 SPPI on the principal amount outstanding.

A financial asset is measured at FVOCI only 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 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)

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

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

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

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

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

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

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

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

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

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

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

(Continued)

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

Subsequent measurement and gains and losses

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

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

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

Financial liabilities

Classification

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

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

Subsequent measurement and gains and losses

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

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

(iii) *Impairment of financial assets*

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

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

Loss allowances are measured 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.

(Continued)

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

Measurement of ECL

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

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

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

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

(Continued)

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

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

(iv) *Impairment of non-financial assets*

At each reporting date, the Bank 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)

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

Impairment losses are recognized in the separate 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.

(v) *Derecognition*

Financial assets

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

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

Financial liabilities

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

(vi) *Offsetting*

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

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

(c) 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 separate 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.

(d) Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Bank 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 separate statement of financial position together with the host contract.

The Bank currently has the following derivative financial instruments:

✓ *<u>Derivatives held for risk management</u>*

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

LIBOR is no longer published; 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.

✓ *<u>Derivatives other than hedges</u>*

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

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

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

(e) Cash and cash equivalents

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

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

(f) 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 vehicle, 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 Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation and amortization

Depreciation is calculated using the straight-line method over the estimated useful life of each item of property, furniture, equipment and leasehold improvements, and it is recognized in profit or loss for the year.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. Land is not depreciated.

(Continued)

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

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

(g) Intangible assets

(i) Recognition and measurement

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

(ii) Amortization

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

(iii) Subsequent expenditure

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

(h) Leases

At inception of a contract, the Bank 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 specific period of time in exchange for consideration.

(Continued)

(i) *As a lessee*

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

The Bank 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 Bank by the end of the lease term or the cost of the right-of-use asset reflects that the Bank 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 Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

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

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

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

(Continued)

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

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

Short-term leases and leases of low-value assets

The Bank has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) *As a lessor*

When the Bank acts as lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Bank makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Bank considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an agreement contains lease and non-lease components, the Bank applies IFRS 15 to assign the consideration in the contract.

(Continued)

The Bank recognizes lease payments received from operating leases as income on a straight-line basis over the lease term as “other income.”

(i) Loan portfolio

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

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

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

(j) Allowance for loan losses

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

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

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

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

As of December 31, 2023, increases in the allowance for loan losses are included in the accounting records in accordance with Article 10 of IRNBS.

(k) 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.

(l) 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.

(m) Assets held for sale

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

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

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

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

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

(Continued)

For assets held for sale prior to the aforementioned date, management of the Bank 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.

(n) Accounts payable and other liabilities

Accounts payable and other liabilities are carried at amortized cost.

(o) Provisions

A provision is recognized in the separate statement of financial position if, as a result of a past event, the Bank 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 separate statement of financial position, directly affecting the separate statement of comprehensive income.

(p) 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.

(ii) Statutory Christmas bonus

Each month, the Bank 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.

(Continued)

(iii) Vacation

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

(iv) Incentives plan

The Bank 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 Bank to coordinate and consolidate its work force, increase its productivity and ensure its compensation is market competitive.

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

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

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

(v) Annuities

Since 2018, an appeal on the grounds of unconstitutionality 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, which indicates that 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.

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

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

The Bank makes 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 Bank assumes the difference as an expense. If the dismissal is with just cause, then the Bank 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.

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).

(q) <u>Deferred income</u>

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

(r) <u>Legal reserve</u>

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.

i. 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

(s) Revaluation surplus

Revaluation surplus included in the separate statement of changes in equity may be transferred directly to prior period retained earnings when the surplus is realized. Total surplus is realized on the retirement, disposal or use of the asset. The transfer of revaluation surplus to prior period retained earnings is not made through the separate 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).

(t) 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 separate statement of financial position.

i. Current tax

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

ii. Deferred tax

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

(Continued)

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

iii. Tax benefits - FOCREDE

Regarding the tax benefits applied to the Development Credit Fund (FOCREDE), to the Development Financing Fund (FOFIDE) and to 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, those funds are 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.

(u) Financial statements of the different departments

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

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

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

(Continued)

(v) Recognition of income and expenses

i. Interest income and interest expense

Interest income and interest expense are recognized in the separate 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 Bank follows the policy of suspending interest accruals on loans when principal or interest payments are more than 180 days past due. Interest income on those loans is recognized when collected.

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

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

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

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

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

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

(Continued)

As of December 31, 2023, allowances are booked in the amount of ¢10,365 million. According to the plan for accrued interest receivable, the allowance to be booked is for a total of ¢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.

Semester	Minimum allowance percentage of the balance of accrued interest receivable over 180 days	Minimum allowance required
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 Bank and is recognized when the corresponding service is provided. When fees and commissions are an integral part of the return on the underlying operation, they are deferred over the term of the operation and amortized using the effective interest method.

iii. Income from foreign currency exchange and arbitrage

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

iv. Operating lease expenses

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

(Continued)

(w) Statutory allocations

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

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

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

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

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

(x) 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.

(Continued)

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.

(y) Development Credit Fund (FOCREDE)

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

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

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

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

b. Pursuant to Article 36 of Law No. 8634, State-owned Managing Banks may offer second-tier banking services with FOCREDE funds to financial entities such as associations, cooperatives, microfinancing entities, foundations, non-governmental organizations, producer organizations or other formal entities, except for private banks, provided that the purposes and obligations established in the law are met and such entities are duly authorized by the Governing Board.

(Continued)

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.

(z) Trust operations

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

(6) Risk management

The Bank has exposure to the following risks from financial instruments:

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

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

The Bank manages the above risks as follows:

a) *Credit risk*

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 separate statement of financial position. The Bank also has exposure to credit risk for off-balance sheet credits, such as commitments, letters of credit, sureties, and guarantees.

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

The Bank has established the following credit risk management procedures:

- The Bank has defined procedures for 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. This has allowed the Bank to optimize and standardize the process.

- The Bank has established and reviewed administrative procedures for loan follow-up in 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 separate statement of financial position, there are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

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

	Direct		Stand-by	
	2023	2022	2023	2022
Loan portfolio				
Principal	¢ 4,964,267,669,632	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	5,055,021,084,480	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	¢ 4,883,467,583,179	4,632,292,699,015	341,504,701,164	341,622,590,994

	Direct		Stand-by	
	2023	2022	2023	2022
Loan portfolio				
Total balances:				
0	¢ 49,062,639,517	37,840,006,906	-	-
A1	3,970,552,417,956	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
	5,055,021,084,480	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	¢ 4,959,603,228,065	4,708,210,280,305	342,551,959,795	342,488,298,015
Individually assessed loans with allowance:				
0	¢ 48,244,490,016	36,830,632,028	-	-
A1	3,970,447,731,041	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	134,254,452,684	187,581,286,831	40,000,000	14,351,743,266
	5,054,098,248,269	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	¢ 4,958,680,391,854	4,705,281,770,103	13,219,123,394	38,102,804,246

		Direct		Stand-by	
		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	¢	5,055,021,084,480	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)
Allowance 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	¢	4,883,467,583,179	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 gross and net (of allowance for loan losses) amounts of loans by risk rating, as of December 31, 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	47,781,619,456
A1		3,970,552,417,956	3,914,107,661,409
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	93,513,678,922
	¢	5,055,021,084,480	4,925,220,475,900

(Continued)

		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	58,369,715,896
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	139,308,551,078
	¢	4,807,829,664,129	4,708,210,280,305

As shown above, as of December 31, 2023, the gross portfolio amounts to ¢5,055 billion. Of that amount, 91.46% is classified in risk ratings “A+B” and 8.54% 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:

Year	Cutoff dates
2022	September 30, 2022
	December 31, 2022
2023	March 31, 2023
	June 30, 2023
	September 30, 2023
	December 31, 2023

In conformity with Transition Provision II of 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.

Individually assessed loans with allowance:

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

Past due loans without allowance:

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

Restructured loans:

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

a. Extended loan: Loan operation in which at least one full or partial payment of principal or interest due under the current contractual terms has been postponed.

b. Modified loan: Loan operation in which at least one of the current contractual repayment terms has been modified, excluding extensions, additional payments not included in the loan repayment schedule, additional payments to reduce the amount of installments and a change in the currency used while respecting the original loan maturity date.

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

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 as of 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.

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.

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.

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:

	Direct		Stand-by	
Borrower classification	2023	2022	2023	2022
Group 1	¢ 2,635,238,654,862	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
	¢ 5,055,021,084,480	4,807,829,664,129	342,588,807,184	342,809,334,409

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 as follows:

- Group 1

Risk rating	Arrears	Historical payment behavior	Creditworthiness
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1 or Level 2 or Level 3
C2	90 days or less	Level 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

(Continued)

- Group 2

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

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

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

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

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

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

Analysis of creditworthiness

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

a. *Financial position and expected cash flows*: Analysis of the stability and continuity of main sources of income. The effectiveness of the analysis depends on the quality and timeliness of information.
b. *Experience in the line of business and quality of management:* Analysis of the capacity of management to lead the business with appropriate controls and adequate support from the owners.
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.

<u>Structural allowance for loan losses</u>

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%

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

Arrears	Specific allowance percentage - Uncovered portion	Specific allowance percentage - Covered portion	Creditworthiness (Group 1 borrowers)	Creditworthiness (Group 2 borrowers)
Current	5%	0.50%	Level 1	Level 1
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.

(Continued)

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 for loan operations rated A1 and A2, without reducing the effect of guarantees. The provisions of Article 13 of the aforementioned directive are to be applied to stand-by credits.

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

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

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 period, the allowance percentage will be 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.

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.

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.

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

	2023		
	Allowance booked	Structural allowance	Difference of allowance
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
CNS 1698 allowance plan	10,365,520,223	(10,365,520,223)	-
	121,280,400,975	(105,820,224,027)	15,460,176,948
Counter-cyclical allowance (per SUGEF Directive 19-16)	8,520,650,052	(8,520,650,052)	-
	¢ 129,801,051,027	(114,340,874,079)	15,460,176,948

	2022		
	Allowance booked	Structural allowance	Difference of allowance
Allowance for direct loans	¢ 133,124,644,086	(99,619,383,824)	33,505,260,262
Allowance for stand-by credits	1,186,743,415	(321,036,394)	865,707,021
CNS 1698 allowance plan	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	(104,994,759,865)	34,370,967,283

(Continued)

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.

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 Bank 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.

(Continued)

Credit equivalent

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

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

Allowance for other assets

Allowances should be established for the following assets:

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

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

As of December 31, 2023, the balance of the allowance for impairment of assets held for sale and per legal requirement amounts to ¢62,186,753,305 (2022: ¢60,686,913,169).

(Continued)

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

Sector		Direct loans 2023	Direct loans 2022	Stand-by credits 2023	Stand-by credits 2022
Trade	¢	379,227,581,524	351,908,579,098	-	-
Services		1,212,351,625,909	1,116,136,507,658	36,959,801,053	49,117,286,831
Financial services		87,738,248,930	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
	¢	5,055,021,084,480	4,807,829,664,129	342,588,807,184	342,809,334,409

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

		Direct loans 2023	Direct loans 2022	Stand-by credits 2023	Stand-by credits 2022
Central America	¢	5,055,021,084,480	4,807,829,664,129	342,588,807,184	342,809,334,409

The loan portfolio by type of guarantee is as follows:

Type of guarantee		Direct loans 2023	Direct loans 2022	Stand-by credits 2023	Stand-by credits 2022
Back-to-back	¢	21,431,553,921	54,481,327,632	155,586,352	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		1,722,308,899,185	1,731,416,075,974	22,709,715	159,554,826
Surety		834,981,732,077	862,834,197,243	-	14,301,961,682
Trust		576,313,970,110	537,124,000,303	45,942,630	36,045,928
Securities		58,910,131,362	26,550,314,551	3,253,315	-
Chattel mortgage		292,656,182,632	240,814,505,071	-	-
Other		907,192,723,942	956,113,953,336	342,356,046,372	328,267,078,022
	¢	5,055,021,084,480	4,807,829,664,129	342,588,807,184	342,809,334,409

(Continued)

Guarantees:

a. Collateral: The Bank accepts collateral guarantees - usually mortgages, chattel mortgages or securities - to secure its loans. The value of those guarantees is determined based on their fair value in the case of securities or, for mortgages and chattel mortgages, based on an appraisal made by an independent appraiser who determines the estimated fair value of land and buildings using comparable market offerings and prior appraisals.

b. Personal: 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: 72.34%).

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

		Direct loans		Stand-by credits	
Loan portfolio concentration		2023	2022	2023	2022
¢1 to ¢3,000,000	¢	162,996,393,710	145,113,049,518	125,107,759,594	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		2,147,876,042,762	2,119,896,323,288	22,349,046,943	32,171,126,469
	¢	5,055,021,084,480	4,807,829,664,129	342,588,807,184	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.

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 credit loss (ECL) analysis is applied by currency. Also, the methodological change of the VaR is made, aligned to the ECL 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 Bank 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.

(Continued)

Investments in financial instruments

With the entrance into effect of CONASSIF Directive 6-18 *Regulation on Financial Information* (RFI), Article 18 requires regulated entities to calculate estimated credit losses for their investment portfolios. This calculation has been performed monthly since January 2020 for the Bank's investments.

The Bank has a classification of its instruments aligned with the three business models defined and updated as of the third quarter of 2021. The calculation of ECL applies only to instruments measured at amortized cost and instruments measured at FVOCI. For instruments measured at FVTPL, ECL are not calculated for impairment of the issuer's credit.

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

Instruments classified under model 3 (other assets) are held to obtain income from cash flows generated by trading the assets and are recorded at FVTPL.

As of December 31, the loss allowance on the financial instruments, by model, is as follows:

		2023		
Month		Model 1 Amortized cost	Model 2 Comprehensive income	Total loss allowance
January	¢	2,524,595,014	2,579,908,514	5,104,503,528
February		2,284,334,539	2,546,205,524	4,830,540,063
March		2,248,298,446	2,961,243,082	5,209,541,528
April		2,208,478,388	3,507,903,575	5,716,381,963
May		1,955,392,171	4,146,206,604	6,101,598,775
June		2,021,648,844	3,899,757,092	5,921,405,936
July		2,223,610,904	3,812,746,376	6,036,357,280
August		2,148,109,945	3,376,164,816	5,524,274,761
September		2,561,534,096	3,630,489,940	6,192,024,036
October		1,998,031,385	2,800,909,552	4,798,940,936
November		1,059,159,681	1,493,589,350	2,552,749,030
December		1,227,418,100	1,409,951,769	2,637,369,869

		2022		
Month		Model 1 Amortized cost	Model 2 Comprehensive income	Total loss allowance
January	¢	2,783,596,898	3,213,329,230	5,996,926,128
February		2,717,426,078	3,161,594,207	5,879,020,285
March		2,670,342,093	3,133,850,948	5,804,193,041
April		2,588,180,360	3,059,746,456	5,647,926,816
May		2,651,144,324	2,963,542,512	5,614,686,836
June		2,692,403,121	2,858,346,744	5,550,749,865
July		2,727,190,019	2,810,648,724	5,537,838,743
August		2,624,104,210	2,859,591,666	5,483,695,876
September		2,551,310,733	2,678,213,729	5,229,524,462
October		2,458,587,277	2,519,452,295	4,978,039,572
November		2,734,679,138	2,844,059,409	5,578,738,547
December		2,609,169,949	2,670,857,408	5,280,027,357

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.

	12-month PD ranges		2023 Stage 1	2023 Total
Investments at amortized cost *(1)*	0.21% to 1.75%	¢	726,259,042,468	726,259,042,468
Allowance			(1,227,418,100)	(1,227,418,100)
		¢	725,031,624,368	725,031,624,368

	12-month PD ranges		2022 Stage 1	2022 Total
Investments at amortized cost *(1)*	0.38% to 3.21%	¢	836,328,403,430	836,328,403,430
Allowance			(2,609,169,949)	(2,609,169,949)
		¢	833,719,233,481	833,719,233,481

(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.

	12-month PD ranges		2023 Stage 1	2023 Total
Investments at FVOCI *(1)*	0.24% to 2.66%	¢	528,307,163,689	528,307,163,689
Allowance			(1,409,951,769)	(1,409,951,769)
		¢	526,897,211,920	526,897,211,920

	12-month PD ranges		2022 Stage 1	Total
Investments at FVOCI *(1)*	0.24% to 3.37%	¢	517,149,407,411	517,149,407,411
Allowance			(2,670,857,408)	(2,670,857,408)
		¢	514,478,550,003	514,478,550,003

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

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

		2023 Absolute	Relative
Colones	¢	2,261,348,254	0.27%
US dollars		376,021,615	0.09%
	¢	2,637,369,869	0.21%

		2022 Absolute	Relative
Colones	¢	3,696,490,325	0.58%
US dollars		1,583,537,032	0.20%
	¢	5,280,027,357	0.78%

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

		2023		
Country		Principal	Interest	Total
Costa Rica	¢	913,619,982,798	17,992,185,905	931,612,168,703
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	2,188,016	295,734,899
	¢	1,273,607,926,133	20,073,599,275	1,293,681,525,408

		2022		
Country		Principal	Interests	Total
Costa Rica	¢	776,120,307,106	15,812,415,935	791,932,723,042
Panama		10,113,432,000	169,533,959	10,282,965,959
Caribbean		188,840,567	2,697,752	191,538,319
United States		504,359,444,209	1,525,856,558	505,885,300,767
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
	¢	1,371,284,327,010	18,124,680,491	1,389,409,007,502

Key inputs for the measurement of ECL under IFRS 9

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

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

Definition of ratings

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

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

(Continued)

- Equivalence of international ratings:

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

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

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

- Equivalence of local ratings (Ceiling test)

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

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

Amounts arising from expected credit losses

- *Significant increase in credit risk*

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

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

Criteria for significant increase in credit risk (Stage 2)

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

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

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.

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 Bank 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).

(Continued)

This analysis is performed in a differentiated manner:

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

Probability of Default (PD)

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

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

Segmentation

IFRS 9 allows the 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.

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

- *Expected credit losses*

As of December 31, 2023, the reconciliation of the opening balance and closing balance of ECL by type of instrument is as follows:

		Stage 1	Total
Investments at amortized cost			
Balance as of December 31, 2022	¢	2,609,169,949	2,609,169,949
Allowance for new investments		918,749,715	918,749,715
Decrease in allowance		(2,300,501,564)	(2,300,501,564)
Balance as of December 31, 2023	¢	1,227,418,100	1,227,418,100
Investments at FVOCI			
Balance as of December 31, 2022	¢	2,670,857,408	2,670,857,408
Allowance for new investments		2,143,388,191	2,143,388,191
Decrease in allowance		(3,404,293,830)	(3,404,293,830)
Balance as of December 31, 2023	¢	1,409,951,769	1,409,951,769
Total allowance	¢	2,637,369,870	2,637,369,870

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

		Stage 1	Total
Investments at amortized cost			
Balance as of December 31, 2021	¢	2,591,484,174	2,591,484,174
Allowance for new investments		719,665,249	719,665,249
Decrease in allowance		(701,979,474)	(701,979,474)
Balance as of December 31, 2022	¢	2,609,169,949	2,609,169,949
Investments at FVOCI			
Balance as of December 31, 2021	¢	3,565,890,660	3,565,890,660
Allowance for new investments		409,988,156	409,988,156
Decrease in allowance		(1,305,021,410)	(1,305,021,410)
Balance as of December 31, 2022	¢	2,670,857,408	2,670,857,408
Total allowance	¢	5,280,027,357	5,280,027,357

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.

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. Below is the LCR indicator as of the December 2022 and 2023 close, 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 by the Bank 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.

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

Indicator	2023	2022	Variation	Level
LCR - colones	181%	185%	-4%	Appetite
LCR - 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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	189,105,686,589	-	-	-	-	-	-	189,105,686,589
Minimum legal deposit in BCCR		-	394,705,246,129	44,538,089,460	22,021,403,049	24,199,855,941	54,676,138,709	52,325,524,542	36,219,604,656	628,685,862,486
Investments		-	-	72,830,814,749	9,740,234,961	2,640,851,816	24,321,017,579	46,263,789,331	719,079,535,957	874,876,244,393
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	3,112,388,803,543	3,721,621,800,819
Recovery of assets	¢	220,130,821,795	583,810,932,718	169,044,855,674	69,717,867,685	77,262,269,422	180,123,725,026	246,511,177,811	3,867,687,944,156	5,414,289,594,287
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	238,246,583,194	4,365,084,488,989
Obligations with BCCR		-	-	-	-	-	-	-	144,471,880,512	144,471,880,512
Obligations with financial entities		-	50,203,341,809	75,338,079,334	20,899,340,647	10,536,082,019	25,581,612,150	10,349,269,404	38,475,236,792	231,382,962,155
Charges payable		-	24,462,877,737	6,450,571,338	5,041,856,231	2,440,045,206	6,667,525,382	1,705,994,026	4,322,596,212	51,091,466,132
Maturity of liabilities	¢	-	3,048,403,074,020	223,454,444,503	181,473,535,119	219,387,469,645	366,232,474,876	327,563,502,915	425,516,296,710	4,792,030,797,788
Difference	¢	220,130,821,795	(2,464,592,141,302)	(54,409,588,829)	(111,755,667,434)	(142,125,200,223)	(186,108,749,850)	(81,052,325,104)	3,442,171,647,446	622,258,796,499

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	190,171,651,175	-	-	-	-	-	-	190,171,651,175
Minimum legal deposit in BCCR		-	362,823,449,136	23,209,473,886	18,062,601,089	19,318,832,079	46,526,486,548	53,243,476,848	29,733,319,599	552,917,639,185
Investments		-	-	3,587,744,767	51,651,721,129	57,379,280,207	67,954,599,435	96,545,216,504	383,610,840,990	660,729,403,032
Loan portfolio		199,556,178,225	-	57,766,738,270	42,660,888,843	41,433,915,989	101,584,399,309	138,561,947,854	2,926,701,448,306	3,508,265,516,796
Recovery of assets	¢	199,556,178,225	552,995,100,311	84,563,956,923	112,375,211,061	118,132,028,275	216,065,485,292	288,350,641,206	3,340,045,608,895	4,912,084,210,188
Obligations with the public	¢	-	2,705,828,366,423	123,920,480,899	121,992,872,581	123,621,848,834	293,643,590,943	338,454,539,164	207,749,693,211	3,915,211,392,055
Obligations with BCCR		-	-	-	-	-	-	-	164,696,408,078	164,696,408,078
Obligations with financial entities		-	32,508,451,648	109,588,348,783	11,286,680,000	24,484,555,297	22,027,706,983	10,163,847,062	40,839,823,470	250,899,413,243
Charges payable		-	12,674,191,069	5,295,649,179	4,573,899,735	2,133,121,465	2,728,103,322	2,000,438,355	3,686,263,515	33,091,666,640
Maturity of liabilities	¢	-	2,751,011,009,140	238,804,478,861	137,853,452,316	150,239,525,596	318,399,401,248	350,618,824,581	416,972,188,274	4,363,898,880,016
Difference	¢	199,556,178,225	(2,198,015,908,829)	(154,240,521,938)	(25,478,241,255)	(32,107,497,321)	(102,333,915,956)	(62,268,183,375)	2,923,073,420,621	548,185,330,172

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BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	312,835,816,139	-	-	-	-	-	-	312,835,816,139
Minimum legal deposit in BCCR		-	208,511,002,438	10,802,845,764	8,799,875,689	8,266,203,790	20,027,199,420	23,744,666,295	16,699,190,365	296,850,983,761
Investments		-	-	63,691,795,436	66,634,061,341	33,845,147,112	69,090,848,490	8,124,346,052	177,783,387,720	419,169,586,151
Loan portfolio		78,133,453,640	-	17,827,348,889	12,143,459,939	13,067,804,804	70,913,178,596	81,127,092,515	1,018,434,495,004	1,291,646,833,387
Recovery of assets	¢	78,133,453,640	521,346,818,577	92,321,990,089	87,577,396,969	55,179,155,706	160,031,226,506	112,996,104,862	1,212,917,073,089	2,320,503,219,438
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	112,424,995,162	2,026,998,035,960
Obligations with financial entities		-	10,435,259,867	73,252,598,235	11,169,856	15,806,400	5,166,335,539	2,442,392,668	85,521,902,240	176,845,464,805
Charges payable		-	5,865,048,108	1,354,021,868	843,598,406	808,408,317	1,825,497,422	1,185,602,463	596,425,172	12,478,601,756
Maturity of liabilities	¢	-	1,480,088,511,176	141,700,606,744	62,247,578,988	48,101,401,739	144,214,486,034	141,426,195,266	198,543,322,574	2,216,322,102,521
Difference	¢	78,133,453,640	(958,741,692,599)	(49,378,616,655)	25,329,817,981	7,077,753,967	15,816,740,472	(28,430,090,404)	1,014,373,750,515	104,181,116,917

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

		Days								
		Past due	Demand	1 to 30	31 to 60	61 to 90	91 to 180	181 to 365	More than 365	Total
Cash and due from banks	¢	-	404,005,530,759	-	-	-	-	-	-	404,005,530,759
Minimum legal deposit in BCCR		-	229,620,522,640	10,968,495,181	8,326,052,868	9,249,367,761	19,448,443,688	22,678,428,517	21,803,525,067	322,094,835,722
Investments		-	-	31,858,242,861	12,052,230,421	40,483,303,876	79,629,377,970	228,670,388,913	336,002,474,014	728,696,018,055
Loan portfolio		86,357,056,228	-	19,541,848,408	12,983,645,618	16,612,635,529	65,208,799,638	90,631,961,065	972,056,962,877	1,263,392,909,363
Recovery of assets	¢	86,357,056,228	633,626,053,399	62,368,586,450	33,361,928,907	66,345,307,166	164,286,621,296	341,980,778,495	1,329,862,961,958	2,718,189,293,899
Obligations with the public	¢	-	1,608,888,989,964	64,886,065,676	64,159,917,224	51,649,146,408	139,346,321,809	145,913,954,383	117,855,662,955	2,192,700,058,419
Obligations with financial entities		-	13,014,633,107	109,795,796,500	1,818,009,800	1,252,711,981	476,402,003	174,365,988,470	73,288,640,726	374,012,182,587
Charges payable		-	2,430,574,730	827,848,021	759,331,380	409,977,434	2,599,692,731	670,560,417	775,289,263	8,473,273,976
Maturity of liabilities	¢	-	1,624,334,197,801	175,509,710,197	66,737,258,404	53,311,835,823	142,422,416,543	320,950,503,270	191,919,592,944	2,575,185,514,982
Difference	¢	86,357,056,228	(990,708,144,402)	(113,141,123,747)	(33,375,329,497)	13,033,471,343	21,864,204,753	21,030,275,225	1,137,943,369,014	143,003,778,917

c) *Market risks*

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 that have been approved by the board of directors.

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

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

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

	Face value of investments by currency		
Currency	2023	2022	Variation
Colones	975,765,431,253	642,587,522,000	195,480,859,253
US dollars – local issuers	107,801,526	215,789,246	107,987,720
US dollars – foreign issuers	691,667,000	1,000,615,000	308,948,000

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.

Currency	2023	2022	Variation
Colones	1.39	0.70	0.69
US dollars – local issuers	0.92	1.30	0.39
US dollars – foreign issuers	0.88	0.89	-0.01

- *Market risk of investments*

As of December 31, the Bank's consolidated VaR regarding the market value of investments increased during the last year. 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 as of the 2023 close, 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.

Type of risk	2023	2022	Variation
Consolidated VaR	0.36%	0.43%	-0.07%

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

Currency	2023	2022	Variation
Colones	0.44%	0.58%	-0.14%
US dollars – local issuers	0.54%	0.29%	0.25%
US dollars – foreign issuers	0.31%	0.55%	-0.24%

(Continued)

- *Interest rate risk*

Interest rate risk is the risk of variations in the brokerage margin arising from fluctuations in interest rates when there is a mismatch in the interest rates for the asset and liability portfolios 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:

Type of risk	2023	2022	Variation	Level
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.

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	72,830,814,749	12,255,887,035	24,321,017,579	46,106,165,106	248,396,605,866	470,682,930,092	874,593,420,427
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)	¢	3,221,264,638,618	138,925,066,618	145,141,042,937	63,267,399,770	266,329,904,542	586,812,267,865	4,421,740,320,350
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		-	-	-	-	147,461,417,065	125,644,412	147,587,061,477
Obligations with financial entities		64,154,160	-	-	-	-	28,146,736,964	28,210,891,124
Maturity of rate-sensitive liabilities LC (B)	¢	233,051,140,725	392,784,559,742	366,232,474,877	326,307,297,119	301,539,245,202	125,136,185,597	1,745,050,903,262
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,988,213,497,893	(253,859,493,124)	(221,091,431,940)	(263,039,897,349)	(35,209,340,660)	461,676,082,268	2,676,689,417,088
Foreign currency (FC)								
Investments	¢	56,855,893,441	107,233,629,278	69,090,848,492	8,124,346,043	107,780,465,730	70,002,921,997	419,088,104,981
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)	¢	1,148,736,796,829	147,898,550,449	92,874,325,340	10,739,093,825	129,626,814,543	132,174,305,826	1,662,049,886,812
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 entities		-	-	218,551,684	-	-	42,150,400,000	42,368,951,684
Maturity of rate-sensitive liabilities FC (D)	¢	145,294,243,469	107,558,991,136	144,214,486,034	141,050,479,192	48,649,271,767	150,538,475,682	737,305,947,280
Difference in FC, recovery of assets less maturity of liabilities (C - D)		1,003,442,553,360	40,339,559,313	(51,340,160,694)	(130,311,385,367)	80,977,542,776	(18,364,169,856)	924,743,939,532
Recovery of rate-sensitive assets 1/ (A + C)	¢	4,370,001,435,447	286,823,617,067	238,015,368,277	74,006,493,595	395,956,719,085	718,986,573,691	6,083,790,207,162
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	378,345,384,194	500,343,550,878	510,446,960,911	467,357,776,311	350,188,516,969	275,674,661,279	2,482,356,850,542
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,991,656,051,253	(213,519,933,811)	(272,431,592,634)	(393,351,282,716)	45,768,202,116	443,311,912,412	3,601,433,356,620

(Continued)

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

		1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Local currency (LC)								
Investments	¢	3,583,439,379	109,023,078,857	67,954,599,435	96,545,216,504	139,862,387,789	243,748,453,200	660,717,175,164
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)	¢	2,968,716,626,617	228,320,149,953	181,744,331,944	112,717,197,185	156,765,537,801	350,849,888,292	3,999,113,731,792
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		-	-	-	-	-	166,961,956,341	166,961,956,341
Obligations with financial entities		33,105,074,075	-	-	-	-	31,181,086,370	64,286,160,445
Maturity of rate-sensitive liabilities LC (B)	¢	239,645,183,400	288,092,977,911	318,399,401,251	347,450,074,439	99,093,766,012	321,137,222,039	1,613,818,625,052
Difference in LC, recovery of assets less maturity of liabilities (A - B)	¢	2,729,071,443,217	(59,772,827,958)	(136,655,069,307)	(234,732,877,254)	57,671,771,789	29,712,666,253	2,385,295,106,740
Foreign currency (FC)								
Investments	¢	27,876,578,556	55,027,433,514	74,334,816,389	235,450,530,011	244,968,934,424	91,033,539,444	728,691,832,338
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)	¢	1,095,219,842,356	94,778,499,359	97,583,811,517	238,006,517,045	266,324,334,241	151,276,882,830	1,943,189,887,348
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 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)	¢	175,866,867,896	120,050,689,819	141,429,292,448	314,401,477,317	63,928,168,535	133,020,175,763	948,696,671,778
Difference in FC, recovery of assets less maturity of liabilities (C - D)		919,352,974,460	(25,272,190,460)	(43,845,480,931)	(76,394,960,272)	202,396,165,706	18,256,707,067	994,493,215,570
Recovery of rate-sensitive assets 1/ (A + C)	¢	4,063,936,468,973	323,098,649,312	279,328,143,461	350,723,714,230	423,089,872,042	502,126,771,122	5,942,303,619,140
Maturity of rate-sensitive liabilities 2/ (B + D)	¢	415,512,051,296	408,143,667,730	459,828,693,699	661,851,551,756	163,021,934,547	454,157,397,802	2,562,515,296,830
Difference in LC + FC, recovery of assets less maturity of liabilities (item 1 - item 2)	¢	3,648,424,417,677	(85,045,018,418)	(180,500,550,238)	(311,127,837,526)	260,067,937,495	47,969,373,320	3,379,788,322,310

(Continued)

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.

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 separate 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 second quarter of 2023.

Type of risk	2023	2022	Variation	Level
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 ("t" periods) and the base capital.

(Continued)

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

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

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

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

		US dollars	
		2023	2022
Assets:			
Cash and due from banks	US$	1,106,303,037	1,146,801,513
Investments in financial instruments		795,569,363	1,210,478,609
Loan portfolio		2,396,198,929	2,025,597,121
Accounts and accrued interest receivable		507,324	443,033
Investments in other companies		127,782,067	121,789,525
Other assets		2,547,290	1,933,043
	US$	4,428,908,010	4,507,042,844
Liabilities:			
Obligations with the public	US$	3,822,760,371	3,591,546,305
Obligations with entities		334,779,428	622,439,535
Subordinated obligations		112,104,804	114,467,301
Accounts payable and provisions		11,487,835	14,639,431
Other liabilities		15,182,061	18,790,220
	US$	4,296,314,499	4,361,882,792
Excess of assets over liabilities in US dollars	US$	132,593,511	145,160,052

(Continued)

		Euro	
		2023	2022
Assets:			
Cash and due from banks	€	46,019,914	55,632,684
	€	46,019,914	55,632,684
Liabilities:			
Obligations with the public	€	42,971,342	54,312,812
Obligations with entities		1,226,687	1,382,584
Accounts payable and provisions		14,141	3,016
Other liabilities		1,284,388	9,000
	€	45,496,558	55,707,412
Excess (deficit) of assets over liabilities in euro	€	523,356	(74,728)

		UD	
		2023	2022
Assets:			
Loan portfolio	UD	(181,648)	39,256
	UD	(181,648)	39,256
Liabilities:			
Accounts payable and provisions		15,341	24,450
	UD	15,341	24,450
Deficit (excess) of assets over liabilities in DU	UD	(196,989)	14,806

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

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

		2023	2022
Foreign exchange gains	¢	491,833,073,312	620,330,726,953
Foreign exchange losses		(492,812,063,601)	(620,798,555,388)
Net losses	¢	(978,990,289)	(467,828,435)

(Continued)

As of December 31, the valuation of other assets and other liabilities gives rise to gains and losses, which are booked in "Other operating income" and "Other operating expenses," respectively, as follows:

		2023	2022
Gains on valuation of other assets, net (Note 39)	¢	698,955,881	577,749,420
Losses on valuation of other liabilities, net (Note 42)		(1,275,069,483)	(282,117,584)
Net (losses) gains	¢	(576,113,602)	295,631,836

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

e) *Operational risk*

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, business and reputational risks.

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

That policy is implemented through a management framework that includes:

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

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

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

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.

There is also another model for the calculation of litigation provisions where the results are obtained from historical probabilities, by lawyer and subject matter, whose effect allows to face possible unfavorable rulings.

(Continued)

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

Capital management:

Regulatory capital

The Bank's capital must always comply with the capital adequacy indicators established by SUGEF, which require that banks maintain a Capital Adequacy Ratio (CAR) of at least 10%. That ratio is calculated by dividing the Bank's base capital by total risk-weighted exposures. Management periodically monitors these requirements and reports to the board of directors on compliance.

As of December 31, the Bank's Tier I and Tier II capital (regulatory capital) is as follows:

		2023	2022
Tier I capital:			
Ordinary paid-in capital	¢	172,237,030,102	172,237,030,102
Legal reserve		422,198,198,610	387,165,279,581
Prior-period retained earnings		32,628,167,802	33,719,121,136
		627,063,396,514	593,121,430,819
Tier II capital:			
Adjustment for revaluation of property and equipment		56,055,285,580	48,678,486,229
Adjustment for valuation of available-for-sale investments		3,630,927,342	(9,511,384,618)
Adjustment for valuation of investments in other companies		2,319,209,969	9,640,231,731
Income for the year		37,771,657,785	37,316,763,826
Equity of FOFIDE		48,624,595,226	44,436,595,670
		148,401,675,902	130,560,692,838
Less: Deductions		(117,920,885,141)	(118,834,235,877)
Regulatory capital	¢	657,544,187,275	604,847,887,780

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

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

In accordance with Article 135 of the *Internal Regulations of the Central Bank of Costa Rica* (Law No. 7558), CONASSIF will establish limits for credit operations, whether direct or stand-by, that financial entities regulated by SUGEF may enter into with individuals or legal entities under the modalities offered by regulated entities.

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

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

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

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

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

The strengthening of the Bank'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 ≥ 12%	11% ≤ x ≤ 12%	x ≤ 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: separate statement of financial position, separate statement of comprehensive income, budget execution, and capital adequacy.

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

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

(7) Collateralized or restricted assets

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

Restricted asset	Cause of restriction		2023	2022
Cash and due from banks:				
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	Contingent guarantee of the Deposits Guarantee Fund (FGD)		132,853,293,781	125,997,691,316
		¢	1,121,924,100,657	1,072,876,656,989
Investments in financial instruments:				
Sovereign bond in USD	BofA-Swaps	¢	-	1,181,869,343
Sovereign bond in USD	Nomura Bank Guarantee		47,437,394,548	87,204,354,223
Sovereign bond in USD	BNY Mellon		42,196,961,996	-
Sovereign bond in USD	SINPE guarantee		23,610,825,591	219,986,936,563
Sovereign bond in USD Local	SINPE guarantee		-	2,789,019,670
TP USD	SINPE guarantee		-	14,922,877,513
		¢	113,245,182,135	326,085,057,312
Other assets:				
Other assets (Note 17)	Security deposits	¢	955,339,633	516,019,610

(8) Balances and transactions with related parties

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

		2023	2022
Assets:			
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		3,650,528,982	7,801,200,762
Other fees and commissions receivable		35,223,658	-
Accounts receivable *(2)* (Note 13)		39,771	-
Investments in other companies *(3)* (Note 15)		117,900,261,841	118,813,612,577
	¢	156,678,628,028	172,644,717,538
Liabilities:			
Demand obligations with entities *(4)* (Note 20)		359,707,735	302,726,712
Term obligations with entities *(5)* (Note 20)		35,312,000	35,312,000
Charges payable for obligations with related parties		3,184,439	967,595
	¢	398,204,174	339,006,307
Income:			
Operating income *(6)*		1,612,173,354	1,461,731,336
Gain on investments in other foreign companies		3,297,830,866	1,948,010,230
Gain on investments in entities supervised by SUGEVAL		4,115,411,052	3,699,433,358
Gain on investments in entities supervised by SUPEN		1,619,963,413	1,426,919,471
Gain on investments in entities supervised by SUGESE		4,818,352,596	4,122,954,777
	¢	15,463,731,281	12,659,049,172
Expenses:			
Finance costs *(7)*		13,577,371	13,990,866
Operating expenses *(8)*		644,784,334	864,359,160
	¢	658,361,705	878,350,026

(Continued)

The aforementioned balances and transactions with related parties correspond to:

(1) balances in foreign checking accounts with BICSA, which bear interest at 2.25% per annum for both years
(2) accounts receivable from transactions with subsidiaries for services rendered
(3) investments in the share capital of entities over which the Bank exercises control or significant influence; for 2023, the Bank includes its ownership interest in BN Centro de Procesos, S.A.
(4) balance of the subsidiaries' checking accounts with the Bank
(5) balance of the subsidiaries' term certificates of deposit with the Bank
(6) commissions on the placement of investment funds, lease of physical space and services provided by the Bank to the subsidiaries
(7) commissions on the placement of funds and issue of term certificates of deposit
(8) services of the Bank's procedures and self-issue insurance unit *(Unidad de Trámites y Autoexpedibles*) and custody rental system.

a) Compensation to key management personnel

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

		2023	2022
Short-term benefits	¢	1,272,841,934	1,095,510,342
Long-term benefits		165,469,451	142,416,344
Per diem – Board of directors		65,609,495	67,286,415
	¢	1,503,920,880	1,305,213,101

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

(9) Cash and cash equivalents

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

		2023	2022
Cash and due from banks	¢	1,427,478,348,976	1,469,189,656,840
Investments with maturities of less than three months		212,896,906,483	99,149,939,178
	¢	1,640,375,255,459	1,568,339,596,018

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

		2023	2022
Cash on hand and in vaults	¢	82,484,578,742	71,070,919,130
Cash in transit		20,232,690,853	49,869,760,012
Checking accounts in BCCR *(1)*		47,311,491,564	46,629,720,425
Minimum legal deposit 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		208,823,828	216,780,104
Checking accounts in foreign financial entities		222,086,875,168	291,062,460,495
Checking accounts and demand deposits with 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)		1,358,743,569	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 11)		-	22,409,216
Contingent guarantee of the Deposit Guarantee Fund (Fondo de Garantía de Depósitos, FGD)		132,853,293,781	125,997,691,316
	¢	1,427,478,348,976	1,469,189,656,840

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

(Continued)

(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 the percentage for the minimum legal deposit in colones will be applied as follows:

Minimum legal deposit rates
15%

(10) Investments in financial instruments

Investments in financial instruments are as follows:

		2023	2022
Investments at FVTPL	¢	19,041,719,976	17,806,516,046
Investments at FVOCI		528,307,163,689	517,149,407,411
Investments at amortized cost		726,259,042,468	836,328,403,553
	¢	1,273,607,926,133	1,371,284,327,010
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		(1,227,418,100)	(2,609,169,949)
Allowance for impairment of derivative instruments other than hedges		(1,414,120)	-
Accrued interest receivable on investments		20,073,599,275	18,124,680,491
	¢	1,292,816,998,325	1,386,816,251,137

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

a) *Investments at FVTPL*

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

		2023	2022
Local issuers			
Private issuers	¢	19,041,719,976	17,806,516,046

b) *Investments at FVOCI*

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

		2023	2022
Local issuers:			
Government of Costa Rica	¢	345,319,815,669	338,396,956,544
BCCR		83,911,118,412	13,252,898,512
	¢	429,230,934,081	351,649,855,056
Foreign issuers			
Governments	¢	38,225,271,617	37,513,503,323
Private issuers		33,254,466,882	51,069,926,429
Private banks		27,596,491,109	76,916,122,603
		99,076,229,608	165,499,552,355
	¢	528,307,163,689	517,149,407,411

c) *Investments at amortized cost*

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

		2023	2022
Local issuers			
Government of Costa Rica	¢	346,733,723,090	320,405,325,593
BCCR		118,613,605,871	73,797,417,371
Private banks		-	12,461,193,000
	¢	465,347,328,961	406,663,935,964
Foreign issuers			
Governments	¢	250,382,013,857	402,225,250,075
Private issuers		8,947,102,749	3,074,134,961
Private banks		1,582,596,901	24,365,082,553
		260,911,713,507	429,664,467,589
		726,259,042,468	836,328,403,553

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 loss 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 gains of ¢3,630,927,342 (2022: unrealized losses in the amount of ¢9,511,384,618).

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

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

		2023	2022
BCCR			
B	¢	-	87,050,315,883
B+		170,524,723,874	-
State-owned banks			
F1+		-	3,611,940,000
Foreign private banks			
A		1,505,691,104	15,947,430,505
A-		11,783,156,069	18,835,855,917
A+		6,082,132,506	8,751,341,536
A2		4,215,040,000	-
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
Foreign private issuers			-
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+		-	175,932,619
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
Local private issuers			
B+		-	4,262,329,996
BB		15,263,063,032	13,544,186,077
BB-		3,778,656,909	-
Government of Costa Rica			
B		-	658,802,282,154
B+		692,053,538,986	-
Foreign governments			
A		565,327,472	725,667,852
AA+		280,937,982,309	399,568,790,780
A1+		2,150,810,816	23,688,409,085
Unrated			
N/A		32,000,000,000	8,849,253,000
	¢	1,273,607,926,133	1,371,284,327,010

(Continued)

(11) Derivative financial instruments

The Bank holds the following types of derivative financial instruments:

✓ *Derivatives as risk hedging instruments*

The Bank obtained interest rate hedges to hedge exposure to the LIBOR rate on 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			
Issuing bank		Notional		Valuation	Purpose
Chicago Board of Trade	US$	21,100,000	US$	39,672	Standardized futures contracts (maturing in 2024)
Amount in colones	¢	11,117,168,000	¢	20,902,320	

		2022			
Issuing bank		Notional		Valuation	Purpose
JP Morgan	US$	45,833,000	US$	(1,099,733)	Swaps to hedge 10-year issues (maturing in 2023)
Bank of America		128,631,000		(3,086,417)	
	US$	174,464,000	US$	(4,186,150)	
Amount in colones	¢	105,025,583,360	¢	(2,520,020,583)	
Chicago Board of Trade	US$	8,900,000	US$	(5,141)	Standardized futures contracts (maturing in 2023)
Amount in colones	¢	5,357,711,000	¢	(3,094,602)	

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

(Continued)

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
Valuation		
Positive valuation	154,648	81,481,170
Negative valuation	(114,977)	(60,578,850)
Net valuation	39,672	20,902,320

	2022	
	US dollars	Colones
Notional amount	8,900,000	5,357,711,000
Valuation		
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, the total notional amount (swaps and standardized futures contracts) and its valuation is as follows:

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

As of December 31, 2023, the Bank does not have swaps matured in November 2023.

✓ *Derivatives other than hedges*

Currency forwards:

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

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

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

As of December 31, the total notional amount and valuation of forward 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
Valuation					
Positive valuation		-	282,823,967	-	12,227,870
Negative valuation		-	(101,908,050)	-	-
Net valuation	¢	-	180,915,917	-	12,227,870

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

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

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

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

(Continued)

(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 *(1)*		1,194,584,316,434	1,095,059,447,030
Financial services *(1)*		87,339,538,238	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		267,194,961,607	269,338,328,270
Total direct loans		4,964,267,669,632	4,705,656,050,771
Incremental costs directly 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)
Loan portfolio	¢	4,883,467,583,179	4,632,292,699,015

(1) As of December 31, 2023, the portfolio purchased by the Bank amounts to ¢82,528,950,016, distributed among the services and financial services sectors.

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

	2023		2022	
Currency	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%
DU	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 as of the close of the periods indicated.

(Continued)

(b) *Loan portfolio by arrears*

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

		2023	2022
Current	¢	4,668,689,481,414	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		84,273,146,378	93,057,026,855
		4,964,267,669,632	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)
	¢	4,883,467,583,179	4,632,292,699,015

(c) *Allowance for loan losses*

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

		2023	2022
Balance at beginning of period	¢	139,365,727,145	135,831,283,295
Allowance expense for the period (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)
Balance at end of period	¢	129,801,051,027	139,365,727,145

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

(Continued)

(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	¢	1,084,106,020	1,186,743,415

(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	¢	443,505,049	408,251,262
Accounts due from related parties (Note 8)		39,771	-
Accounts due from employees		22,122,592	14,156,057
Income tax receivable		133,040,592	145,577,899
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
Misappropriation and theft		4,758,193,197	1,464,986,868
Other accounts receivable		2,555,608,667	1,793,128,513
Accrued interest receivable on other sundry accounts receivable		2,012,794	725,933
Allowance for impairment of accounts receivable		(7,499,658,577)	(4,258,988,840)
	¢	1,159,632,279	796,798,710

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	¢	4,258,988,840	4,006,933,436
Allowance expense (Note 36)		4,627,438,498	2,059,871,458
Decrease in allowance (Note 37)		(280,020,795)	(786,561,237)
Write-offs		(1,049,359,965)	(977,168,662)
Foreign exchange differences		(57,388,001)	(44,086,155)
Closing balance	¢	7,499,658,577	4,258,988,840

(14) <u>Assets held for sale</u>

As of December 31, assets held for sale are presented net of the allowance for impairment and per legal requirements, 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 requirement		(62,186,753,305)	(60,686,913,169)
	¢	36,457,157,242	37,495,457,395

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

		2023	2022
Opening balance	¢	60,686,913,169	58,895,478,390
Allowance expense (Note 36)		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	¢	62,186,753,305	60,686,913,169

(15) Investments in other companies

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

		2023	2022
BN Valores Puesto de Bolsa, S.A.	¢	15,715,746,507	15,155,883,433
BN Sociedad Administradora de Fondos de Inversión, S.A.		11,698,732,022	11,572,525,173
BN Vital Operadora de Planes de Pensiones Complementarias, S.A.		14,588,058,584	11,805,571,143
BN Corredora de Seguros, S.A.		7,521,909,138	6,963,556,542
Investments in other non-financial entities *(1)*		1,070,623,300	20,623,300
Banco Internacional de Costa Rica, S.A. *(2)*		67,325,815,589	73,316,076,286
	¢	117,920,885,140	118,834,235,877

(1) As of December 31, the Bank's investments in other non-financial entities are as follows:

		2023		2022	Description
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.
	¢	1,070,623,300	¢	20,623,300	

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

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

a) *Historical cost and depreciation*

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

		2023					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,678	73,195,840,170	76,495,411,108	49,277,787,513	267,496,597	203,517,685,066
Revalued cost at beginning of year		49,667,757,458	65,580,690,062	-	-	-	115,248,447,520
Revaluation of assets		4,578,156,017	9,786,667,228	-	-	-	14,364,823,245
Additions		-	64,189,113	9,830,310,003	3,948,640,075	-	13,843,139,191
Disposals		-	-	(5,160,665,643)	(4,315,914,645)	-	(9,476,580,288)
Adjustments		22,085,002	(2,680,969,458)	3,775,000	194,827,636	-	(2,460,281,820)
Balance at end of year		58,549,148,155	145,946,417,115	81,168,830,468	49,105,340,579	267,496,597	335,037,232,914
Accumulated depreciation:							
Balance at beginning of year		-	53,833,621,251	47,159,961,346	40,097,710,656	152,108,984	141,243,402,237
Depreciation expense on historical cost		-	1,609,532,380	7,811,908,171	3,592,132,791	15,065,430	13,028,638,772
Depreciation expense on revalued cost		-	809,901,105	-	-	-	809,901,105
Disposals		-	-	(5,056,051,606)	(4,268,077,244)	-	(9,324,128,850)
Adjustments		-	1,482,613,872	-	-	-	1,482,613,872
Balance at end of year		-	57,735,668,608	49,915,817,911	39,421,766,203	167,174,414	147,240,427,136
Net balance at end of year	¢	58,549,148,155	88,210,748,507	31,253,012,557	9,683,574,376	100,322,183	187,796,805,778

BANCO NACIONAL DE COSTA RICA

Notes to the Separate Financial Statements

		2022					
		Land	Buildings	Furniture and equipment	Computer hardware	Vehicles	Total
Cost:							
Historical cost at beginning of year	¢	4,281,149,677	72,438,846,477	72,175,356,749	49,038,461,268	391,060,868	198,324,875,039
Revalued cost at beginning of year		49,374,508,222	65,580,690,063	-	-	-	114,955,198,285
Additions		-	756,993,692	8,967,665,438	3,354,513,998	-	13,079,173,128
Revaluation of assets		293,249,237	-	-	-	-	293,249,237
Disposals		-	-	(4,647,862,130)	(3,114,936,702)	-	(7,762,798,832)
Sales		-	-	-	-	(123,564,271)	(123,564,271)
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of year		53,948,907,136	138,776,530,232	76,495,411,108	49,277,787,513	267,496,597	318,766,132,586
Accumulated depreciation:							
Balance at beginning of year		-	51,251,241,262	44,344,593,538	39,386,021,956	260,607,825	135,242,464,581
Depreciation expense on historical cost		-	1,611,532,572	7,364,415,484	3,824,748,952	15,065,448	12,815,762,456
Depreciation expense on revalued cost		-	970,847,416	-	-	-	970,847,416
Disposals		-	-	(4,549,298,727)	(3,112,809,201)	-	(7,662,107,928)
Sales		-	-	-	-	(123,564,272)	(123,564,272)
Reclassifications		-	-	251,051	(251,051)	-	-
Balance at end of year		-	53,833,621,250	47,159,961,346	40,097,710,656	152,109,001	141,243,402,253
Net balance at end of year	¢	53,948,907,136	84,942,908,982	29,335,449,762	9,180,076,857	115,387,596	177,522,730,333

(Continued)

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

b) *Right-of-use assets*

As of December 31, the right of use comprises the lease of buildings and vehicles as follows:

		2023		
		Right-of-use - building	Right-of-use - vehicles	Total
Cost:				
Historical cost at beginning of year	¢	37,524,388,529	142,975,127	37,667,363,656
Additions		25,288,638,327	-	25,288,638,327
Disposals		(34,400,827)	(142,975,127)	(177,375,954)
Adjustments		790,780,154	-	790,780,154
Balance at end of year		63,569,406,183	-	63,569,406,183
Accumulated depreciation:				
Balance at beginning of year		10,657,612,976	119,411,823	10,777,024,799
Depreciation expense on historical cost		3,874,685,370	23,563,284	3,898,248,654
Disposals		(35,192,849)	(142,975,107)	(178,167,956)
Balance at end of year		14,497,105,497	-	14,497,105,497
Net balance at end of year	¢	49,072,300,686	-	49,072,300,686

		2022		
		Right-of-use - building	Right-of-use - vehicles	Total
Cost:				
Historical cost at beginning of year	¢	37,907,557,060	107,630,182	38,015,187,242
Additions		77,426,326	-	77,426,326
Disposals		(764,307,628)	-	(764,307,628)
Adjustments		303,712,771	35,344,945	339,057,716
Balance at end of year		37,524,388,529	142,975,127	37,667,363,656
Accumulated depreciation:				
Balance at beginning of year		8,246,574,030	88,061,098	8,334,635,128
Depreciation expense on historical cost		2,736,087,813	31,350,726	2,767,438,539
Disposals		(240,180,210)	-	(240,180,210)
Adjustments		(84,868,622)	-	(84,868,622)
Balance at end of year		10,657,613,011	119,411,824	10,777,024,835
Net balance at end of year	¢	26,866,775,518	23,563,303	26,890,338,821

b) *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	¢	3,949,221,230	3,453,978,501
Expenses for leases of low-value assets, excluding short-term assets	¢	242,906,157	607,862,647

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

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

		2023	2022
Cash outflows for leases	¢	(2,584,359,400)	(2,033,672,846)

(17) Other assets

As of December 31, other assets are as follows:

		2023	2022
Deferred charges:			
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
		22,377,026	14,330,485,937
Intangible assets:			
Software, net *(3)*		4,960,138,182	8,489,096,778
		4,960,138,182	8,489,096,778
Other assets:			
Prepaid taxes		13,901,890,103	9,988,689,445
Prepaid insurance policy		190,055,973	190,405,752
Other prepaid expenses		6,878,027,359	5,203,476,827
Stationery, office supplies and other materials		853,387,329	1,009,274,321
Leased assets		128,583,896	118,708,632
Library and artwork		400,081,892	400,081,892
Construction work-in-progress		214,941,893	214,941,893
Payments to welfare and trade associations		350,000	350,000
Other sundry assets		153,486,106	153,486,106
Operations pending settlement		11,514,246,772	11,988,708,378
Other operations pending application		87,848,438	113,620,383
Security deposits (Note 7)		671,214,354	303,564,849
Legal and administrative deposits (Note 7)		284,125,279	212,454,762
		35,278,239,394	29,897,763,240
	¢	40,260,754,602	52,717,345,955

(Continued)

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

(2) As of December 31, costs related to the 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		2,379,666	2,379,666	4,759,332
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	88,588,848	177,177,696
Shearman & Sterling		88,703,829	88,703,830	177,407,659
External audit		114,378,100	114,378,100	228,756,200
		929,913,217	929,913,193	1,859,826,410
Amortization		(929,913,217)	(827,567,946)	(1,757,481,163)
	¢	-	102,345,247	102,345,247

(Continued)

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

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

		2023	
		Software	Total
Cost:			
Balance at beginning of year	¢	38,671,965,127	38,671,965,127
Additions		1,691,992,776	1,691,992,776
Disposals		(5,480,046,547)	(5,480,046,547)
Balance at end of year		34,883,911,356	34,883,911,356
Accumulated amortization:			
Balance at beginning of year		30,182,868,351	30,182,868,351
Expense for the year		5,217,919,219	5,217,919,219
Disposals		(5,477,014,396)	(5,477,014,396)
Balance at end of year		29,923,773,174	29,923,773,174
Net balance at end of year	¢	4,960,138,182	4,960,138,182

		2022		
		Software	Other intangible assets	Total
Cost:				
Balance at beginning of year	¢	34,091,302,504	42,095,559	34,133,398,063
Additions		5,292,738,836	-	5,292,738,836
Disposals		(665,600,819)	(42,095,559)	(707,696,378)
Adjustments		(46,475,393)	-	(46,475,393)
Balance at end of year		38,671,965,128	-	38,671,965,128
Accumulated amortization:				
Balance at beginning of year		25,410,722,964	42,095,559	25,452,818,523
Expense for the year		5,437,613,763	-	5,437,613,763
Disposals		(665,468,377)	(42,095,559)	(707,563,936)
Balance at end of year		30,182,868,350	-	30,182,868,350
Net balance at end of year	¢	8,489,096,778	-	8,489,096,778

(Continued)

(18) Obligations with the public

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

		2023	2022
Demand deposits:			
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
		4,437,525,057,675	4,314,717,356,387
Term deposits:			
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
		1,954,394,980,375	1,790,666,793,187
Other obligations with the public:			
Finance charges payable	¢	58,484,221,323	36,671,811,687
		6,450,404,259,373	6,142,055,961,261

As of December 31, 2023 and 2022, deposits in checking accounts in colones bear interest at a maximum rate of 3.05% per annum on full balances and at a minimum rate of 0% per annum on balances greater than or equal to ¢500,001, while deposits in checking accounts in US dollars bear interest at a maximum rate of 0.20% per annum on full balances and at a minimum rate of 0.00% per annum on balances greater than or equal to US$1,000.

(Continued)

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

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 Bank 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 Bank 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 *(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
	¢	147,587,061,477	166,961,956,341

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

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

(20) Obligations with financial entities

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

		2023	2022
Demand:			
Checking accounts with local financial entities	¢	59,476,704,619	43,916,537,732
Savings deposits with local financial entities		42,687,081	34,658,872
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)		359,707,736	302,726,712
		60,638,601,676	45,523,084,756
Term:			
Lease liabilities – leased assets received *(1)*		51,502,089,230	31,333,785,099
Term obligations with foreign financial entities *(2)*		-	103,761,660,525
Notes payable for BNCR financing *(3)(4)*		28,146,736,965	31,181,086,370
Loans from foreign financial entities *(4)*		42,150,400,000	111,571,141,028
Term deposits with local financial entities		85,404,630,024	87,641,877,299
Obligations with related financial entities (Note 8)		35,312,000	35,312,000
Obligations for deferred liquidity operations		-	33,000,000,000
Obligations with funds from the Development Credit Fund		140,350,657,066	180,863,648,754
		347,589,825,285	579,388,511,075
(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 other demand and term obligations with financial entities – foreign currency		45,747,567	77,816,225
Charges payable for other demand and term obligations with financial entities – local currency		1,649,079,016	864,256,500
Charges payable for loans with foreign financial entities		211,684,857	509,773,987
		1,970,665,599	2,627,580,666
	¢	410,199,092,560	627,435,906,762

(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, respectively, for a total in colones of ¢51,502,089,230, using an exchange rate of ¢526.88 (2022: ¢7,148,807,318 and US$40,175,051, respectively, for a total in colones of ¢31,333,786,038, using an exchange rate of ¢601.99).

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 15.00% per annum	2023 and 2048	19	5.56% and 15.00% per annum	2022 and 2041
In US dollars	53	3.57% and 8.85% per annum	2024 and 2048	54	3.57% and 8.85% per annum	2021 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	¢	6,542,547,296	4,212,242,582	2,330,304,714
Between one and five years		33,069,443,244	17,273,912,190	15,795,531,054
More than five years		46,470,632,234	13,094,378,773	33,376,23,462
	¢	86,082,622,774	34,580,533,544	51,502,089,230

		2022		
		Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	¢	4,763,831,120	2,927,847,436	1,835,982,745
Between one and five years		22,844,599,476	11,718,893,800	11,125,705,676
More than five years		25,913,410,491	7,541,313,813	18,372,096,678
	¢	53,521,841,087	22,188,055,049	31,333,785,099

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

		2023	2022
Balance at beginning of year	¢	31,333,785,038	35,041,666,758
New financial obligations		25,277,458,326	77,426,326
Settlements or withdrawals		-	(662,645,977)
Adjustments		1,326,372,486	576,526,206
Payment of obligations		(2,584,359,338)	(2,033,672,891)
Foreign exchange differences		(3,851,167,282)	(1,665,514,384)
Balance at end of year	¢	51,502,089,230	31,333,786,038

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

Date of issue	Face value (in millions)	Characteristics
12/03/2007	US$75	Traded amount: 100% Term: 22 years Interest rate: 6.65 per coupon
12/14/2022	US$5	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.

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

(Continued)

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

As of December 31, 2023, loans due to financial entities abroad bear interest at rates ranging from 6.65% to 10.45% per annum (2022: from 3.32% to 6.92% per annum).

(4) 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 Bank 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
Current tax:			
Current tax expense for the year	¢	14,640,617,850	24,328,769,631
Prior-period income tax expense		14,189,237,931	14,189,237,931
Decrease in prior-period income tax		(1,207,402,403)	-
		27,622,453,378	38,518,007,562
Deferred tax:			
Deferred tax expense		1,750,364,950	1,768,733,792
Deferred tax income		(1,026,086,812)	(1,669,440,585)
Total deferred tax expense, net		724,278,138	99,293,207
Tax expense, net	¢	28,346,731,516	38,617,300,769

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	¢ 92,689,993,341		97,495,220,206	
Plus (less) tax effect of:				
Non-deductible expenses	531,225,826,310	1089%	40,867,557,589	22%
Deductible expenses	(32,784,309,722)	67%	(11,646,630,474)	23%
Non-taxable income	(542,329,450,426)	1111%	(45,834,899,311)	34%
Taxable income	-	0%	214,650,761	1%
Tax base	48,802,059,503		81,095,898,771	
Tax rate	30%		30%	
Income tax expense	14,640,617,851	30%	24,328,769,631	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	1,750,364,950		1,768,733,792	
Deferred tax income	(1,026,086,812)		(1,669,440,585)	
Deferred tax, net	724,278,138		99,293,207	
Income tax, net	¢ 28,346,731,516	31%	38,617,300,769	39%

b) *Deferred tax*

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

	2023		
	Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢ 12,403,363	-	12,403,363
Right-of-use assets *(1)*	728,936,564	-	728,936,564
Unrealized gains	-	(964,250,000)	(964,250,000)
Revaluation of property	-	(11,279,487,553)	(11,279,487,553)
Tax base of property and equipment	-	(4,682,862,055)	(4,682,862,055)
	¢ 741,339,927	(16,926,599,608)	(16,185,259,681)

		2022		
		Assets	Liabilities	Net
Unrealized losses on valuation of investments	¢	5,220,960,894	-	5,220,960,894
Right-of-use assets *(1)*		1,333,033,888	-	1,333,033,888
Revaluation of property		-	(9,042,911,729)	(9,042,911,729)
Tax base of property and equipment		-	(4,562,681,241)	(4,562,681,241)
	¢	6,553,994,782	(13,605,592,970)	(7,051,598,188)

(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	¢	5,220,960,894	-	(5,208,557,530)	12,403,364
Right-of-use assets		1,333,033,888	(604,097,324)	-	728,936,564
Unrealized gains on valuation of investments		-	-	(964,250,000)	(964,250,000)
Revaluation of property		(9,042,911,729)	-	(2,236,575,824)	(11,279,487,553)
Tax base of property and equipment		(4,562,681,241)	(120,180,814)	-	(4,682,862,055)
	¢	(7,051,598,188)	(724,278,138)	(8,409,383,354)	(16,185,259,680)

(Continued)

		December 2021	Included in the income statement	Included in equity	December 2022
Unrealized losses on valuation of investments	¢	351,515,796	-	4,869,445,098	5,220,960,894
Right-of-use assets		1,608,334,393	(275,300,505)	-	1,333,033,888
Unrealized gains on valuation of investments		(3,429,452,240)	-	3,429,452,240	-
Revaluation of property		(8,836,563,017)	-	(206,348,712)	(9,042,911,729)
Tax base of property and equipment		(4,738,688,539)	176,007,298	-	(4,562,681,241)
	¢	(15,044,853,608)	(99,293,207)	8,092,548,627	(7,051,598,188)

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	¢	273,267,615	276,113,280
Litigation		7,697,392,275	3,921,350,933
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		705,390,294	610,087,257
	¢	22,995,417,491	10,727,740,204

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

		2023			
		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2022	¢	276,113,280	3,921,350,933	6,530,275,991	10,727,740,204
Increase in provision		44,252,685	6,462,507,866	16,424,657,761	22,931,418,313
Used		(824,588)	(2,491,034,947)	(4,778,092,351)	(7,269,951,886)
Decrease in provision		(46,273,763)	(195,431,577)	(3,152,083,800)	(3,393,789,140)
Balance as of December 31, 2023	¢	273,267,614	7,697,392,275	15,024,757,601	22,995,417,491

		2022			
		Severance benefits	Litigation	Other	Total
Balance as of December 31, 2021	¢	330,973,577	7,917,746,644	13,081,119,635	21,329,839,856
Increase in provision		84,253,695	370,866,820	5,057,286,616	5,512,407,131
Used		(6,594,125)	(135,972,795)	(11,535,526,758)	(11,678,093,678)
Decrease in provision		(132,519,867)	(4,231,289,736)	(72,603,502)	(4,436,413,105)
Balance as of December 31, 2022	¢	276,113,280	3,921,350,933	6,530,275,991	10,727,740,204

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

		Claimed amount		Provision	
Type		2023	2022	2023	2022
Ordinary - in colones	¢	9,127,774,142	16,796,903,476	4,585,057,063	560,071,683
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		507,232,942	846,372,540	2,619,150,481	107,047,980
	¢	61,622,110,719	100,646,869,123	7,697,392,275	3,921,350,933

(Continued)

(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		8,554,807,793	6,128,997,937
Current tax		-	13,834,738,671
Value added tax		134,724,641	103,017,886
Employer contributions		12,783,703,891	12,259,582,094
Court-ordered withholdings		3,768,408,201	4,241,942,241
Tax withholdings		2,351,866,300	2,036,984,628
Employee withholdings		877,381,967	837,403,058
Other third-party withholdings		6,639,015	6,955,955
Compensation		21,445,465,131	20,822,150,479
Statutory allocations		33,702,484,531	28,692,036,099
Clearing house operations		29,509,914	106,576,220
Accrued vacation		5,569,632,627	5,454,438,021
Accrued statutory Christmas bonus		2,374,800,848	2,323,677,075
Assets held for sale		74,718,278	81,392,012
Provisional deposits for the payment of premiums		1,738,380,030	1,724,766,840
Property		499,480,720	902,931,071
Master Card and Visa payments		2,318,945,542	1,909,533,657
Amounts received for partial sales of assets held for sale		741,645,816	809,316,748
SICOP guarantees		1,191,484,721	1,257,167,862
Other various creditors		4,368,229,716	2,874,273,306
Interest rate futures - Hedges (Note 10)		60,578,850	2,527,300,900
Purchase of FX futures		101,908,049	-
	¢	102,705,053,360	108,937,306,760

(24) Other liabilities

As of December 31, other liabilities are as follows:

		2023	2022
Deferred income:			
Deferred fees and commissions for trust management	¢	88,687,508	100,946,981
		88,687,508	100,946,981
Operations pending application:			
Operations pending settlement		16,561,870,009	14,126,167,943
Other operations pending settlement		16,466,611,653	16,283,878,923
		33,028,481,662	30,410,046,866
	¢	33,117,169,170	30,510,993,847

(Continued)

(25) Subordinated obligations

As of December 31, subordinated obligations are as follows:

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

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

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

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

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 Bank'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
	¢	172,237,030,102	172,237,030,102

(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 Bank 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 loans		6,583,686	83,658,102
Other contingencies - Pending litigation and lawsuits (Note 47)		61,622,110,720	100,646,869,123
		367,142,467,739	394,304,141,455
Sale of FX futures – Other than hedges		7,129,052,308	150,497,500
	¢	411,346,553,898	443,690,359,134

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

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

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

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

- management and investment trusts
- management trusts with a testamentary clause
- guaranty trusts
- housing trusts
- management and investment public trusts.

As of December 31, 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
Trust assets															
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	2,454,831,273,130	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	2,492,490,261,012
Loan portfolio	-	-	-	-	-	-	-	-	-	5,251,717,346	-	-	-	-	5,251,717,346
Accounts and accrued interest receivable	23,552,039	-	73,540,329	7,530,828	-	206,022,430	-	60,612,840,304	-	87,735,074,689	746,690	-	-	306,279	148,659,613,588
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 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	2,581,263,036,589	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	2,842,249,896,680

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
Trust assets															
Cash and due from banks	¢ 457,418,164	7,006,259	17,831,456	1,203,980	8,738	-	-	38,035	-	26,992,654	5,593	-	6,019,900	-	516,524,779
Investments in financial instruments	164,263,111,120	10,025,137,476	-	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	2,926,281,233,414
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	2,078,828,502	81,263,368	9,479,903	-	-	207,247,468	-	-	244,221	-	-	-	176,226,700,745
Assets held for sale	48,920,810	-	3,213,881	-	-	-	-	-	-	-	-	-	-	-	52,134,691
Investments in other companies	-	-	-	4,595,000,000	24,302,199	164,000	-	-	25,206,000	-	2,740,000	-	-	-	4,647,412,199
Property and equipment	712,952,407	29,574,355,173	1,505,520	122,871,300,086	1,069,780,959	-	-	8,719,375,327	-	-	1,549,346,718	-	-	-	164,498,616,190
Other assets	23,881,926,228	3,517,659,752	334,480	-	4,581,665	-	-	-	-	5,204,698,377	-	-	-	-	32,609,200,502
	¢ 337,970,167,453	72,265,605,506	3,081,626,991	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	3,309,709,383,959

(Continued)

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

a) Housing mortgage

These trusts are exclusively dedicated to managing housing loan portfolios.

b) Cash or property management

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

c) Securitization

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

d) Portfolio management

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

e) Special accounts

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

f) Guaranty

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

g) Testamentary

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

(29) Other debit memoranda accounts

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

		2023	2022
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		9,907,679,287,963	8,251,459,883,252
Lines of credit granted but unused		431,997,000,239	385,726,062,498
Guarantees received in the Bank's custody		145,801,796,899	160,078,072,925
Overdrafts obtained but unused		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
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
Nondeductible expenses		531,225,826,310	40,867,557,589
Nontaxable income		542,329,450,425	45,834,899,311
Other memoranda accounts		123,510,344,006	222,745,513,884
		12,524,651,272,337	10,113,362,670,858
Third-party debit memoranda accounts		1,668,740,260,281	1,811,845,820,166
Own debit memoranda accounts for custodial activities		583,156,384,372	486,930,151,517
Third-party debit memoranda accounts for custodial activities		16,330,529,345,402	15,072,831,958,152
	¢	18,582,425,990,055	17,371,607,929,835
	¢	31,107,077,262,392	27,484,970,600,693

(30) Income from financial instruments

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

		2023	2022
Cash and due from banks:			
Checking accounts and demand deposits in foreign entities	¢	14,672,806,141	6,022,426,302
		14,672,806,141	6,022,426,302
Financial instruments:			
Investments at FVTPL		151,415,159	195,078,052
Investments at FVOCI		39,864,460,421	26,644,610,284
Investments at amortized cost		38,598,763,201	22,052,674,044
Investments in past due and restricted securities		3,015,836,300	2,172,018,809
		81,630,475,081	51,064,381,189
	¢	96,303,281,222	57,086,807,491

(31) Income from loan portfolio

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

		2023	2022
Current loans:			
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
		426,487,999,138	293,459,246,805
Past due loans and loans in legal collection:			
Individuals		25,424,916,463	12,975,046,331
Development Banking System		684,831,171	232,506,513
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		6,470,398,234	83,232,727,542
Amortization of net commission of incremental direct costs related to loans		1,108,090,801	1,030,101,249
		50,850,621,638	105,642,939,785
	¢	477,338,620,776	399,102,186,590

(Continued)

(32) 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	13,562,713
Fees and commissions on guarantees granted		369,856,085	365,947,031
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		109,482,803	76,429,947
Charges for overdue operations		1,474,996,726	563,906,914
Charges to customers for overdue operations - microcredits		742,981,665	359,776,170
Sundry finance income from late fees		358,744,084	1,816,591,061
	¢	7,418,082,652	13,594,755,906

(33) 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	¢	104,495,384,441	60,604,373,012
Term deposits		139,819,907,148	70,066,392,356
	¢	244,315,291,589	130,670,765,368

(34) 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		26,211,816,073	28,577,104,029
	¢	31,156,150,177	31,353,291,466

(35) Other finance costs

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

		2023	2022
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	7,137,284,852
Other sundry finance costs		249,846,624	843,902,724
	¢	5,952,681,223	8,249,920,246

(36) Expenses for allowance for impairment of assets

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

		2023	2022
Allowance for loan losses (Note 12)	¢	27,578,110,407	40,556,617,208
Allowance for impairment of other accounts receivable (Note 13)		4,627,438,498	2,059,871,458
Allowance for stand-by credit losses (Note 24)		3,797,574	360,000,000
General and counter-cyclical allowance for loan portfolio (Note 12)		6,972,479,771	6,010,000,000
General and counter-cyclical allowance for stand-by credit losses (Notes 12 and 24)		-	24,000,000
Allowance for impairment of investments at FVOCI		1,911,379,402	409,988,158
Allowance for impairment of financial instruments at amortized cost		861,607,159	707,294,016
Allowance for impairment of operations with derivative financial instruments		4,158,770	12,371,234
	¢	41,958,971,581	50,140,142,074

(37) 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 8)		280,020,795	786,561,237
Decrease in allowance for impairment of investments in financial instruments (Note 6)		5,418,388,699	2,007,000,884
	¢	21,873,854,809	23,390,548,567

(38) 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		1,351,882	1,940,807
Trusts		1,757,318,072	2,273,302,959
Custodial services		2,151,438,461	2,154,907,158
Banking mandates		105,129	406,854
Collections		15,569,268	20,790,450
Credit cards		65,463,676,282	67,686,218,207
Management services		3,452,908,639	4,617,571,397
Insurance underwriting		646,979,694	499,417,132
Transactions with related parties		801,871,540	864,320,140
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		12,337,290,826	10,968,612,885
	¢	138,090,006,778	140,330,940,337

(Continued)

(39) Other operating income

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

		2023	2022
Recovery of expenses *(1)*	¢	2,845,028,645	1,049,702,249
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		642,618,253	984,814,919
Decrease in provisions *(2)*		3,393,789,140	4,436,413,105
	¢	10,350,347,943	9,406,546,906

(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.

(40) 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		4,963,231,382	7,955,732,508
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		10,589,747	9,168,741
	¢	16,077,672,391	20,907,270,097

(41) Provision expenses

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

		2023	2022
Severance benefits	¢	44,252,684	84,253,695
Pending litigation		6,462,507,866	370,866,820
"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
	¢	22,931,418,311	5,512,407,131

(42) 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 expense		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		1,125,304,246	414,562,217
Other local taxes		87,330	87,330
Other foreign taxes		35,889	24,928
Transfer to FINADE		2,994,377,819	1,804,040,113
Amortization of deferred direct costs related to loans		580,100,897	441,362,449
Costs of microfinance insurance policies		3,368,466,623	4,415,489,245
Customer remittances		876,427,206	1,022,216,988
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		21,616,948,555	6,835,005,965
Other expenses for sundry assets		-	843,597,538
	¢	73,673,392,104	67,201,497,906

(Continued)

(43) Personnel expenses

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

		2023	2022
Salaries and bonuses, permanent staff	¢	69,992,443,816	67,657,214,032
Salaries and bonuses, contractors		2,366,312,914	923,857,133
Compensation for directors and statutory examiners		65,609,495	67,286,415
Overtime		678,002,694	521,202,879
Travel expenses		455,482,468	289,229,534
Statutory Christmas bonus		7,748,729,738	7,634,424,147
Vacation		6,379,549,201	6,103,034,657
Incentives		9,737,291	4,243,421,722
Other compensation		6,589,094,579	5,983,777,548
Severance benefits		4,570,121,254	4,539,460,149
Employer social security taxes		31,549,989,376	30,624,152,459
Refreshments		83,045,631	61,238,074
Uniforms		528,406,669	376,988,942
Training		771,211,330	673,626,296
Employee insurance		253,037,233	232,427,894
Back-to-school bonus		7,881,501,321	7,276,382,894
Mandatory retirement savings account		1,516,273,300	1,485,762,188
Other personnel expenses		552,178,182	552,510,292
	¢	141,990,726,492	139,245,997,255

(44) Other administrative expenses

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

		2023	2022
Outsourcing	¢	31,196,356,326	30,000,978,307
Transportation and communications		3,635,564,925	3,840,726,060
Infrastructure		31,238,106,917	26,241,265,144
Overhead		21,245,131,147	20,623,573,208
	¢	87,315,159,315	80,706,542,719

(Continued)

(45) 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
Comisión Nacional de Emergencias 3%		2,473,833,354	2,647,377,378
INFOCOOP 10%		7,094,104,247	6,564,431,219
RIVM 15%		12,369,166,773	7,474,586,004
	¢	26,571,604,042	21,561,155,611

(46) 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	Fair value	Level
Financial assets:					
Cash and due from banks	¢	1,427,478,348,976		1,427,478,348,976	
Investments at amortized cost		726,259,042,468		726,311,934,174	
Loan portfolio		5,013,268,634,206	(3)	5,078,215,432,860	(3)
	¢	7,167,006,025,650		7,232,005,716,010	
Financial liabilities:					
Demand deposits from the public and financial entities	¢	4,541,821,596,590		4,541,821,596,590	
Other demand obligations with the public		14,826,284,084	(3)	14,826,284,084	(3)
Term deposits from the public and financial entities		2,449,571,867,137	(3)	2,469,749,126,024	(3)
	¢	7,006,219,747,811		7,026,397,006,698	

		2022			
		Carrying amount	Level	Fair value	Level
Financial assets:					
Cash and due from banks	¢	1,469,189,656,840		1,469,189,656,840	
Investments at amortized cost		836,328,403,553		815,782,479,069	
Loan portfolio		4,771,658,426,160	(3)	4,947,318,927,889	(3)
	¢	7,077,176,486,553		7,232,291,063,798	
Financial liabilities:					
Demand deposits from the public and financial entities	¢	4,380,639,808,790		4,380,639,808,790	
Other demand obligations with the public		16,272,444,040	(3)	16,272,444,040	(3)
Term deposits from the public and financial entities		2,537,017,260,603	(3)	2,516,381,412,394	(3)
	¢	6,933,929,513,433		6,913,293,665,224	

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 separate balance sheet:

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

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

(b) Loan portfolio

The fair value of loans is calculated by discounting future cash flows expected for principal and interest. Loan payments are assumed to be made on the contractually agreed payment date. Future expected cash flows for loans are discounted at the interest rates offered for similar loans to new borrowers as of December 31, 2023 and 2022.

(c) Term deposits

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

(d) Obligations with entities

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

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

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
FVTPL	¢	-	15,263,063,067	3,778,656,909	19,041,719,976
FVOCI	¢	528,307,163,386	-	-	528,307,163,386
Derivative financial instruments	¢	-	-	102,383,490	102,383,490

		2022			
		Level 1	Level 2	Level 3	Total
FVTPL	¢	-	13,544,186,050	4,262,329,996	17,806,516,046
FVOCI	¢	517,149,407,411	-	-	517,149,407,411
Derivative financial instruments	¢	-	-	4,185,715	4,185,715
Term obligations with foreign financial entities	¢	-	-	103,761,660,525	103,761,660,525

(Continued)

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	¢	4,262,329,996	-	103,761,660,525	4,568,628,100	7,723,704,438	212,580,207,609
Valuation		48,135,757	20,902,320	1,145,892,786	-	(7,205,878,085)	(7,637,697,906)
Amortizations		-	-	(856,607,365)	-	-	(590,578,809)
Exchange differences		(531,808,844)	81,481,170	(104,050,945,946)	(306,298,104)	(513,640,638)	(100,590,270,366)
Closing balance	¢	3,778,656,909	102,383,490	-	4,262,329,996	4,185,715	103,761,660,528

(47) Contingencies

As of December 31, the Bank is a defendant in ordinary, labor and criminal lawsuits as follows:

Number of cases as defendant				Total estimated amount	
2023	2022	Phase		2023	2022
273	311	First instance	¢	48,572,060,843	58,176,652,103
18	15	Second instance		127,080,500	25,909,357,208
43	58	Appeal		12,922,969,377	16,560,859,812
334	384	(Note 22)	¢	61,622,110,720	100,646,869,123

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

As of December 31, the Bank is a claimant in ordinary, labor and criminal lawsuits for which the outcome is uncertain; they are not booked in the accounting records. The lawsuits are as follows:

Number of cases as claimant			Total estimated amount	
2023	2022	Phase	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
229	296		¢ 94,918,027,803	77,584,647,117

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.

  - ✓ 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).

    ✓ 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 Nº80-2022-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.

- *File No.: 19-007376-1027-CA*

    - ✓ Court: First Associate Civil Court of San José

    - ✓ Statement of the facts: The Bank filed a lawsuit against Oceánica 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.

(48) Emergency caused by COVID-19

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

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

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

As a result, as of 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).

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
Sub-Total		1,312,692,854,100	1,598,146,402,194
Accounts and accrued interest receivable		2,359,575,276	2,433,088,971
Loans restructured due to COVID-19		1,315,052,429,376	1,600,579,491,165
Allowance for doubtful accounts		(37,413,455,849)	(46,291,100,287)
Loan portfolio, net	¢	1,277,638,973,527	1,554,288,390,878

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		45,219,916,535	36,615,635,071
		1,312,692,854,100	1,598,146,402,194
Accounts and accrued interest receivable		2,359,575,276	2,433,088,971
Total loans restructured due to COVID-19		1,315,052,429,376	1,600,579,491,165
Allowance for loan losses		(37,413,455,849)	(46,291,100,287)
Loan portfolio, net	¢	1,277,638,973,527	1,554,288,390,878

(Continued)

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
		1,312,692,854,100	1,598,146,402,194
Accounts and accrued interest receivable		2,359,575,276	2,433,088,971
Loans restructured due to COVID-19		1,315,052,429,376	1,600,579,491,165
Allowance for loan losses		(37,413,455,849)	(46,291,100,287)
Loan portfolio, net	¢	1,277,638,973,527	1,554,288,390,878

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.

(Continued)

- 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.

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.

(49) Relevant events

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

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

On December 21, 2022, through Official Letter 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.

(Continued)

ii. *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.

iii. *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.

iv. *Treatment of foreign exchange differences as per ruling DGT-R-09-2022*

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

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

(50) 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: ¢39,158,624,631).

(51) 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 Bank'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) IAS 21: The Effects of Changes in Foreign Exchange Rates

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

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

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

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

b) IAS 38: Intangible assets

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

c) <u>IFRS 5: Non-current Assets Held for Sale and Discontinued Operations</u>

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.

To close the gap with IFRS, through Minutes of Meeting No. 1836-2023, held November 27, 2023, CONASSIF modified Article 16 of the CONASSIF Directive 6-18 *Regulations on Financial Information*, eliminating the requirements for estimates indicated in the previous paragraphs. This change is applicable as of January 1, 2024, following that set forth in Transition Provision XX of RFI, which admits a gradual period ending on December 31, 2024. The impacts of this change will be applied prospectively.

It maintains the requirement to make the request for extension to SUGEF in conformity with Article 72 of IRNBS (Law No. 1644).

(Continued)

d) IFRS 9: Financial Instruments

a) For the application of IFRS 9, specifically the measurement of ECL, the prudential regulation issued by CONASSIF through various agreements, including SUGEF Directive 1-05, applicable to the loan portfolio, accounts receivable and stand-by credits granted, until December 31, 2023. For the measurement of ECL as of January 1, 2024, CONASSIF issued Directive 14-21, which establishes the standard methodology to quantify the credit risk of the loan operations or borrowers, which is mandatory for all entities that perform credit-related activities and are regulated by the different superintendencies. This agreement sets forth several parameters such as segmentation of the portfolio, default rates, recovery rates, among other. The use of an internal methodology aligned with IFRS 9 is permitted, with prior acceptance by the superintendence and once the entity has complied with the requirements of Article 27.

b) 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 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* is effective beginning January 1, 2019. on initial application of IFRIC 23, entities must apply the transition established in item (b) of paragraph B2 of that Interpretation.

ii. The amount of the provision for the tax treatments in dispute notified before December 31, 2018, for the tax period 2017 and previous periods, was booked at the greater of the best estimate of the amount payable to the Tax Authorities regarding the notice of deficiency (principal, interest and fines), according to IAS 12, and 50% of the principal from the correction of the self-assessment of the tax obligation.

The booking of the provision for tax treatments in dispute for the periods indicated in the paragraph above may 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.

b. Booking a single adjustment to the opening balance of prior period retained earnings until reaching the provision amount. Adjustments derived from subsequent evaluations of the amounts in dispute will be treated as adjustments to allowances, for which IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* will be applied.

c. If the provision amount is greater than the opening balance of prior period retained earnings, the adjustment will be first applied to prior retained earnings and, for the remainder, the provisions of item a. above will be followed.

On January 31, 2019 at the latest, the entity, which had tax treatments in dispute for the years indicated in this provision, had to report to the respective superintendency the method (a), (b) or (c) above, based on CONASSIF 6-18 (formerly antes SUGEF Directive 30-18), that would be used until the resolution or settlement of the tax obligation.

f) IFRS 17: Insurance contracts

IFRS 17 was approved in March 2017. It establishes the principles for recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles applicable to reinsurance contracts and investment contracts with discretionary participation features it issues.

The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. IFRS 17 replaces IFRS 4 *Insurance Contracts*.

According to CONASSIF official communication CNS-1682/07 dated August 25, 2021, insurance and reinsurance entities supervised by SUGESE must establish the accounting policies necessary for the implementation of the standard and follow the provisions established therein regarding insurance assets and liabilities. They must also consider that indicated in the *Regulations on Solvency of Insurance and Reinsurance Entities*.

However, through communication CNS-1830/11 of November 1, 2023, CONASSIF establishes that amendments to RFI related to the adoption of IFRS 17 will be effective as of January 1, 2026. Nevertheless, for insurance entities to be able to perform the comparisons indicated in Transition Provision III of this directive, entities supervised by SUGESE must adjust their accounting policies as of January 1, 2025, in conformity with the considerations of IFRS 17, so as to have sufficient information to prepare the comparisons during 2026.

g) <u>Revised Conceptual Framework</u>

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.

h) <u>Sustainability standards:</u>

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.

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.