



Banco de Costa Rica

**Separate Unaudited Financial Statements**

September 30, 2020

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### Separate Unaudited Financial Statements

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**BANCO DE COSTA RICA**  
**SEPARATE BALANCE SHEET**  
As of September 30, 2020  
(In colones without cents)

	<u>Note</u>	<u>September</u> <u>2020</u>
<b><u>ASSETS</u></b>		
<b>Availabilities</b>	<b>4</b>	<b>€ 701,863,097,004</b>
Cash		88,030,937,464
Central Bank of Costa Rica		557,496,767,778
Financial entities abroad		53,349,200,981
Demand documents receivable for collection		2,540,049,933
Restricted availabilities		446,140,848
<b>Investment in financial instruments</b>	<b>5</b>	<b>1,252,131,331,103</b>
At fair value through profit or loss		82,667,587,657
At fair value through other comprehensive income		967,130,672,998
At amortized cost		191,694,389,590
Interest receivable		10,638,783,524
(Allowance for impairment)		(102,666)
<b>Loan portfolio</b>	<b>6</b>	<b>2,827,556,101,963</b>
Current loans		2,619,604,465,626
Past due loans		237,420,257,212
Loans in legal collection		49,625,417,582
(Deferred income-loan portfolio)		(16,707,775,563)
Interest receivable	<b>6.e</b>	33,074,083,442
(Allowance for impairment)	<b>6.f</b>	(95,460,346,336)
<b>Accounts and commissions receivable</b>		<b>10,793,960,768</b>
Commissions receivable		837,069,273
Accounts receivable for transactions with related parties		6,663,792,579
Deferred income tax and income tax receivable	<b>15</b>	2,238,569,796
Other accounts receivable		10,977,754,337
(Allowance for impairment)		(9,923,225,217)
<b>Foreclosed assets</b>	<b>7</b>	<b>45,346,964,990</b>
Assets and securities acquired as recovery of loans		141,168,447,637
Other foreclosed assets		2,822,688,312
(Allowance for impairment and per legal requirements)		(98,644,170,959)
<b>Interest in other companies capital, net</b>	<b>8</b>	<b>118,137,052,695</b>
<b>Property, furniture and equipment, net</b>	<b>9</b>	<b>130,544,257,109</b>
<b>Property investments</b>		<b>6,441,924,521</b>
<b>Other assets</b>	<b>10</b>	<b>74,786,407,080</b>
Deferred charges	<b>10.a</b>	7,782,438,258
Intangible assets, net	<b>10.b</b>	9,827,782,010
Other assets	<b>10.c</b>	57,176,186,812
<b>TOTAL ASSETS</b>		<b>€ 5,167,601,097,233</b>

**BANCO DE COSTA RICA**  
**SEPARATE BALANCE SHEET**  
As of September 30, 2020  
(In colones without cents)

	<u>Note</u>	<u>September</u> <u>2020</u>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Obligations with the public</b>		<b>¢ 3,939,759,814,060</b>
Demand obligations	11	2,456,469,778,715
Term obligations	12	1,467,691,838,368
Other obligations with the public		571,694,336
Financial charges payable		15,026,502,641
<b>Obligations with entities</b>		<b>451,515,080,824</b>
Demand obligations	14	37,762,576,448
Term obligations	12	412,861,467,061
Financial charges payable		891,037,315
<b>Accounts payable and provisions</b>		<b>154,742,707,357</b>
Provisiones	16	58,892,117,737
Accounts payable for brokerage services		7,235,051
Deferred income tax		7,829,201,949
Other accounts payable		88,014,152,620
<b>Other liabilities</b>		<b>26,956,720,101</b>
Deferred income		525,426,978
Other liabilities		26,431,293,123
<b>TOTAL LIABILITIES</b>		<b>¢ 4,572,974,322,342</b>
<b>EQUITY</b>		
<b>Capital stock</b>	18	<b>¢ 181,409,990,601</b>
Paid up capital		181,409,990,601
<b>Equity adjustments - Other comprehensive income</b>		<b>59,213,823,322</b>
<b>Reserves</b>	1.w	<b>283,820,516,011</b>
Accrued earnings from previous periods		13,464,953,148
Profit of current period		23,407,763,349
Capital contributions in funds or special reserves		33,309,728,460
<b>TOTAL EQUITY</b>		<b>594,626,774,891</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>¢ 5,167,601,097,233</b>
<b>DEBIT CONTINGENT ACCOUNTS</b>	19	<b>¢ 312,213,658,216</b>
<b>TRUST ASSETS</b>	20	<b>863,713,999,161</b>
<b>TRUST LIABILITIES</b>		<b>372,016,190,461</b>
<b>TRUST EQUITY</b>		<b>491,697,808,701</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	21	<b>¢ 20,324,754,918,872</b>
Own debit memoranda accounts		13,912,171,412,005
Third party debit memoranda accounts		77,169,273,540
Own debit memoranda accounts for custodial activities		820,198,925,335
Third party debit memoranda accounts for custodial activities		5,515,215,307,992

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

\_\_\_\_\_  
Douglas Soto L.  
General Manager

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Ana Lorena Brenes B.  
Accountant

\_\_\_\_\_  
José Manuel Rodríguez G.  
General Auditor

**BANCO DE COSTA RICA**  
**SEPARATE STATEMENT OF INCOME**

As of September 30, 2020

(In colones without cents)

	Note	September 2020	Quarter from July 1 to September 30 2020
<b>Financial income</b>			
Cash	¢	627,170,609	207,409,795
Investments in financial instruments	22	40,202,267,328	14,933,583,653
Loan portfolio	23	184,263,660,344	57,988,841,281
For exchange differences and UD	1-d	5,346,740,875	4,056,003,203
For profit from financial instruments at fair value through profit or loss		2,830,627,432	266,608,202
For profit from financial instruments at fair value through other comprehensive income		6,975,100,131	3,689,577,584
Other financial income		1,082,941,168	591,679,799
<b>Total financial income</b>		<b>241,328,507,887</b>	<b>81,733,703,517</b>
<b>Financial expenses</b>			
Obligations with the public	24	96,237,726,624	30,152,804,818
Obligations with the Central Bank of Costa Rica		25,081,278	658,333
Obligations with financial and no-financial entities		7,723,294,664	2,618,476,250
Financial instruments at fair value through profit or loss		5,102,213,631	11,735,537
Financial instruments at fair value through other comprehensive income		65,074,299	36,631,949
<b>Total financial expenses</b>		<b>109,153,390,496</b>	<b>32,820,306,887</b>
Allowance for impairment of assets	25	26,674,010,894	2,945,285,080
Asset recovery and decrease in allowance and provisions	26	29,789,170,407	8,242,370,368
<b>FINANCIAL INCOME</b>		<b>135,290,276,904</b>	<b>54,210,481,918</b>
<b>Other operating income</b>			
Service fees	27	55,088,822,953	17,110,401,377
Foreclosed assets		17,877,458,686	7,088,581,480
Profit from capital investments in other companies	28	1,050,331,746	242,856,298
Profit from capital investments in entities supervised by SUGEVAL	28	4,817,786,876	1,723,676,096
Profit from capital investments in entities supervised by SUPEN	28	628,132,482	251,299,264
Profit from capital investments in entities supervised by SUGESE	28	2,279,064,044	722,757,564
Foreign currency exchange and arbitrations		17,536,290,717	5,730,565,098
Other income from related parties		2,694,614,664	794,576,266
Other operating income		14,354,276,634	3,264,934,683
<b>Total other operating income</b>		<b>116,326,778,802</b>	<b>36,929,648,126</b>
<b>Other operating expenses</b>			
Service fees		16,362,707,447	4,952,713,656
Foreclosed assets		31,232,498,764	8,354,826,031
Loss from capital investments in other companies		153,032,646	6,046,649
Loss from capital investments in entities supervised by SUGEVAL		19,391,503	0
Loss from capital investments in entities supervised by SUGESE		14,507,008	0
Provisions		3,398,381,232	1,652,872,565
Foreign currency exchange and arbitration		2,350,651,836	1,276,679,771
For other expenses with related parties		619,856,629	619,856,629
Other operating expenses		30,655,043,991	9,864,120,707
<b>Total other operating expenses</b>		<b>84,806,071,056</b>	<b>26,727,116,008</b>
<b>OPERATING INCOME, GROSS</b>		<b>166,810,984,650</b>	<b>64,413,014,036</b>
<b>Administrative expenses</b>			
Personnel expenses		71,167,367,714	24,005,663,405
Other administrative expenses		48,644,499,996	16,643,720,136
<b>Total administrative expenses</b>	29	<b>119,811,867,710</b>	<b>40,649,383,541</b>
<b>NET OPERATING INCOME, BEFORE TAXES AND STATUTORY ALLOCATIONS</b>			
		<b>46,999,116,940</b>	<b>23,763,630,495</b>
Income tax	15	13,237,309,078	5,929,221,583
Decrease in income tax	15	114,319,595	38,106,156
Statutory allocations over profit	30	10,468,364,108	5,801,607,834
<b>RESULTS OF THE PERIOD, NET</b>		<b>23,407,763,349</b>	<b>12,070,907,234</b>
<b>OTHER COMPREHENSIVE INCOME , NET OF TAX</b>			
Adjustment for valuation of investments at fair value through other comprehensive income		8,853,287,539	4,329,484,172
Reclassification of unrealized profit to the income statement		(4,837,018,082)	(2,557,061,944)
Adjustment for valuation of restricted financial instruments, net of income tax		(20,628,367)	0
Other adjustments		3,977,659,881	3,187,222,488
<b>OTHER COMPREHENSIVE INCOME, NET OF INCOME TAX</b>	31	<b>7,973,300,971</b>	<b>4,959,644,716</b>
<b>COMPREHENSIVE INCOME ATTRIBUTED TO THE FINANCIAL CONGLOMERATE</b>		<b>31,381,064,320</b>	<b>17,030,551,950</b>

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

Douglas Soto L.  
General Manager

Ana Lorena Brenes B.  
Accountant

José Manuel Rodríguez G.  
General Auditor

**BANCO DE COSTA RICA**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY**  
For the one year period ended September 30, 2020  
(In colones without cents)

		<u>Adjustments to equity</u>								
	<u>Note</u>	<u>Capital Stock</u>	<u>Surplus for revaluation of property, furniture and equipment</u>	<u>Adjustment for valuation of investments at fair value with changes through other comprehensive income</u>	<u>Adjustment for translation of financial statements</u>	<u>Total equity adjustment</u>	<u>Equity reserves</u>	<u>Accrued earnings from previous periods</u>	<u>Equity of the Development Financing Fund</u>	<u>Total equity</u>
<b>Balance as of January 1, 2020</b>	<b>18</b>	<b>181,409,990,601</b>	<b>37,774,830,067</b>	<b>7,395,390,459</b>	<b>6,070,301,825</b>	<b>51,240,522,351</b>	<b>264,398,962,426</b>	<b>38,043,832,889</b>	<b>29,753,932,255</b>	<b>564,847,240,522</b>
Impairment recognition – Investments at fair value through other comprehensive income from previous periods		0	0	0	0	0	0	(1,601,529,951)	0	(1,601,529,951)
Allocation of legal reserve		0	0	0	0	0	19,421,553,585	(19,421,553,585)	0	0
Allocation to the Development Financing Fund		0	0	0	0	0	0	(3,555,796,205)	3,555,796,205	0
<b>Balance as of September 30, 2020</b>	<b>18</b>	<b>181,409,990,601</b>	<b>37,774,830,067</b>	<b>7,395,390,459</b>	<b>6,070,301,825</b>	<b>51,240,522,351</b>	<b>283,820,516,011</b>	<b>13,464,953,148</b>	<b>33,309,728,460</b>	<b>563,245,710,570</b>
<b>Other comprehensive income</b>										
Total other comprehensive income		0	0	3,995,641,090	3,977,659,881	7,973,300,971	0	23,407,763,349	0	31,381,064,320
<b>Balance as of September 30, 2020</b>	<b>18</b>	<b>181,409,990,601</b>	<b>37,774,830,067</b>	<b>11,391,031,549</b>	<b>10,047,961,706</b>	<b>59,213,823,322</b>	<b>283,820,516,011</b>	<b>36,872,716,497</b>	<b>33,309,728,460</b>	<b>594,626,774,890</b>

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

\_\_\_\_\_  
Douglas Soto L.  
General Manager

\_\_\_\_\_  
Ana Lorena Brenes B.  
Accountant

\_\_\_\_\_  
José Manuel Rodríguez G.  
General Auditor

**BANCO DE COSTA RICA**  
**SEPARATE STATEMENT OF CASH FLOWS**  
For the one year period ended September 30, 2020  
(In colones without cents)

	Note	September 2020
<b>Cash flows from operating activities</b>		
Profit of the year	€	23,407,763,349
<b>Items applied to results not requiring cash outlays</b>		<b>(84,127,254,663)</b>
<b>Increase or (decrease) for</b>		
Allowance for impairment or devaluation of securities		4,648,579,622
Allowance for impairment of loan portfolio		18,737,527,753
Allowance for impairment and default of other accounts receivable		3,287,903,519
Allowance for impairment of assets in lieu of payment		19,922,517,262
Income from reversal of allowance for impairment or devaluation of investments		(3,673,549,538)
Income from reversal of allowance for impairment of loan portfolio		(24,144,937,678)
Income from reversal of allowance for impairment and default of accounts receivable		(1,970,683,191)
Income from reversal of allowance for impairment of assets in lieu of payment		(17,372,298,563)
Income or loss for sale of assets received in lieu of payment and of property, furniture and equipment		7,801,727,658
Interest in net profit of other companies		(8,588,383,991)
Depreciations		9,140,633,373
Amortizations		9,025,043,888
Provisions for pending lawsuits		3,357,853,448
Other provisions		243,854,712
Income from provisions		(2,471,301,700)
Income tax		13,237,309,078
Deferred income tax		(114,319,595)
Legal allocation of income		10,468,364,108
Interests for obligations with the public		96,237,726,624
Interests for obligations with financial entities		7,748,375,942
Income from availabilities		(627,170,609)
Income from investment in financial instruments		(40,202,267,328)
Income from loan portfolio		(184,263,660,344)
Gain or loss for exchange rate differences and UD (Development Units), net		(4,556,099,113)
<b>Cash flows from perating activities</b>		<b>141,659,760,173</b>
<b>Net change in assets, increase or (decrease) for</b>		
Increase in financial instruments - at fair value with changes through profit or loss		(98,472,533,863)
Decrease in financial instruments - at fair value with changes through profit or loss		136,388,985,391
Increase in financial instruments - at fair value with changes through other comprehensive income		(236,317,570,154)
Decrease in financial instruments - at fair value with changes through other comprehensive income		279,834,702,590
Loan portfolio		23,905,565,912
Accounts and commissions receivable		(7,848,610,594)
Available-for-sale assets		11,987,926,058
Interest receivable from financial instruments		8,750,467,339
Interest receivable from loan portfolio		16,421,315,851
Other assets		7,009,511,643
<b>Net variations in liabilities, increase or (decrease)</b>		<b>104,920,006,321</b>
Obligations with the public		161,975,701,790
Obligations with the Central Bank of Costa Rica and other entities		(10,330,759,014)
Obligations for accounts and commissions payable and provisions		(18,772,914,331)
Interest payable for obligations with the public		(18,859,209,834)
Interest payable for obligations with BCCR and other entities		(2,245,275,924)
Other liabilities		(6,847,536,366)
Interests paid		(88,068,562,610)
Dividends received		15,658,000,001
Collected interest		184,101,305,916
Paid income tax		(15,116,370,753)
<b>Net cash flows provided by operating activities</b>		<b>282,434,647,734</b>
<b>Cash flow from investment activities</b>		
Increase in financial instruments at amortized cost		(12,015,078,417,283)
Decrease in financial instruments at amortized cost		11,823,361,925,352
Acquisition of property, furniture and equipment		(7,157,491,744)
Decrease for withdrawal and transfer of property, furniture and equipment		15,572,175,256
Acquisition of intangibles		(3,788,158,551)
Return of capital from subsidiaries		994,878,153
<b>Cash flows (used for) provided by investment</b>		<b>(186,095,088,817)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>96,339,558,917</b>
Cash and cash equivalents at the beginning of the year		895,558,712,608
Effect on changes in exchange rates on cash		16,918,805,861
Cash and cash equivalents at the end of the year	4 €	<b>1,008,817,077,386</b>

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

\_\_\_\_\_  
Douglas Soto L.  
General Manager

\_\_\_\_\_  
Ana Lorena Brenes B.  
Accountant

\_\_\_\_\_  
José Manuel Rodríguez G.  
General Auditor



BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(1) Summary of operations and significant accounting policies

a. Operations

Banco de Costa Rica (the Bank) is an autonomous, independently managed, public law institution organized in 1877. As a State-owned public 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 by the Political Constitution of the Republic of Costa Rica. It is also subject to oversight by the General Superintendence of Financial Entities (SUGEF) and the Comptroller General of the Republic (CGR). The Bank's registered office is located at Avenida Central and Avenida Segunda, Calle 4 and Calle 6, in San José, Costa Rica.

The Bank's website is [www.bancobcr.com](http://www.bancobcr.com).

The Bank is mainly dedicated to extending loans and granting bid and performance bonds; issuing certificates of deposit; opening checking accounts in colones, U.S. dollars, and euros; issuing letters of credit; providing collection services; buying and selling foreign currency; managing trusts; providing custodial services for assets; and other banking operations. As of September 30, 2020, the Bank has 171 distributed among the national territory, has in operation 636 automated teller machines, and has 3,695 employees

The financial statements and notes thereto are expressed in colones (¢), the monetary unit of the Republic of Costa Rica.

The Bank is shareholder owner of a 100% of the following subsidiaries:

BCR Valores, S.A. (brokerage firm) was organized as a corporation in February 1999 under the laws of the Republic of Costa Rica. Its main activity is securities trading.

BCR Sociedad Administradora de Fondos de Inversion, S.A. (investment fund manager company) was organized as a corporation in July 1999 under the laws of the Republic of Costa Rica. Its main activity is investment fund management.

BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A. (pension fund operator) was organized as a corporation in September 1999 under the laws of the Republic of Costa Rica. Its main activity is managing supplemental pension plans and offering additional services related to disability and death plans to members.

BCR Corredora de Seguros, S.A. (insurance broker) was organized as a corporation in February 2009 under the laws of the Republic of Costa Rica. Its main activity is insurance underwriting.

(Continue)

## BANCO DE COSTA RICA.

### Notes to the unaudited separate financial statements

Banprocesa - TI. S.R.L. was organized as a corporation in August 2009 under the laws of the Republic of Costa Rica. Its main activity will be to provide IT processing services and technical support, purchase, lease, and maintain hardware and software, including software development, and address the Bank's IT needs. As of September 30, 2020, SUGEF is evaluating its participation as part of the conglomerate.

Depósito Agrícola de Cartago, S.A. and subsidiary, was organized as a corporation in October 1934 under the laws of the Republic of Costa Rica. Its main activity is the custody and storage of personal property of national and foreign origin, with its own legal status and administratively independent. The company is regulated by the Ley de Almacenes Generales.

Depósito Agrícola de Cartago, S.A. has a wholly owned subsidiary named Almacén Fiscal Agrícola de Cartago, S.A., constituted in December 1991 under the laws of the Republic of Costa Rica. Its main activity is the custody and storage of merchandise on which no import taxes have been paid, regulated by the General Customs Law and supervised by the General Customs Directorate of the Ministry of Finance. Both companies are subject to the oversight of the Comptroller General of the Republic.

Bancrédito Sociedad Agencia de Seguros, S.A., organized in March 2009 under the laws of the Republic of Costa Rica. As of April 30, 2020, this entity was settled.

The Bank holds a 51% ownership interest in the following subsidiary:

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized as a bank under the laws of the Republic of Panama in 1976. It operates under a general license granted by the Superintendence of Banks of Panama to engage in banking transactions in Panama or abroad; its office is located in the city of Panama, Republic of Panama, BICSA Financial Center, 50 floor, Avenida Balboa and Calle Aquilino de la Guardia, and its subsidiary in Miami, Florida, United States of America. The remaining 49% of BICSA's stocks are owned by Banco Nacional de Costa Rica.

#### b. Accounting policies for financial statement preparation

The Bank's financial statements are prepared in compliance with the accounting regulations applicable to Supervised Entities, in accordance with the legal provisions, rules, and accounting regulations issued by the National Financial System Supervisory Board (CONASSIF), the General Superintendence of Financial Entities (SUGEF) and the Central Bank of Costa Rica (BCCR), and in those matters that are not covered by those entities, according to the International Financial Reporting Standards as of January 1, 2011 (IFRS).

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Notes to the unaudited separate financial statements

Through communication C.N.S. 116-07 from December 18, 2007, the National Financial System Supervisory Board issued a reform to the regulations denominated “Accounting Standard Applicable to the Entities Supervised by SUGEF, SUGEVAL and SUPEN and to the non-financial issuers.” The objective of such standard is to regulate the adoption and application of the International Financial Reporting Standards (IFRS) and the corresponding interpretations (SIC and IFRIC interpretations.)

Afterwards, through articles 8 and 5 of minutes corresponding to sessions 1034-2013 and 1035-2013, held on April 2, 2013, respectively, the National Financial System Supervisory Board made a change to the “Accounting standard applicable to the entities supervised by SUGEF, SUGEVAL and SUPEN and to the Non-Financial issuers.”

According to such document, the IFRS and its interpretations must be mandatorily applied by the supervised entities, in accordance with the texts in force as of January 1, 2011. This is for the audits as of December 31, 2015, except for the special treatments applicable to the supervised entities and non-financial issuers. The anticipated adoption of standards is not allowed.

Issuing new IFRSs or interpretation by the IASB, as well as any amendment to the adopted IFRSs to be applied by the entities under supervision will require a prior authorization by the National Financial System Supervisory Board (CONASSIF).

The financial statements have been prepared based on historical costs as explained in the accounting policies below.

Historical costs are generally based on the fair value of the consideration for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date, regardless of whether price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability on the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for the stock-based payment transactions within the scope of IFRS 2, the lease transactions within the scope of IAS 17, and the measurements that have certain similarities with the fair value but which are not fair value, such as the net realizable value in IAS 2 or the value in use in IAS 36.

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Notes to the unaudited separate financial statements

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 - inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - unobservable inputs for asset or liability.

c. Investment in other companies

Valuation of investments by the equity method

i. *Subsidiaries*

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its actives. As prescribed by regulations, the financial statements must present investments in subsidiaries by the equity method rather than on a consolidated basis. Transactions that affect the equity of those companies, such as conversion adjustments and unrealized gain or loss on valuation of investments, are recognized in the same manner in the Bank's equity, the effects are recorded in the "Adjustment for valuation of investments in other companies" account.

The Bank and subsidiaries must analyze and evaluate the distribution of dividends in accordance with current internal and external regulations applicable to each entity. The distribution of dividends will be proposed by the Administration of each entity; it will transmit the proposal to the Board of Directors and subsequently send it to the shareholders' meeting in the case of the subsidiaries. Once the amount to be distributed has been determined, the accumulated profits of previous periods and / or the capital stock will be reduced, if necessary.

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Notes to the unaudited separate financial statements

d. Foreign currency

i. *Foreign currency transactions*

Assets and liabilities held in foreign currency are converted to colones at the exchange rate ruling at the separate balance sheet date. Transactions in foreign currency during the year are converted at the foreign exchange rate ruling at the date of the transaction. Conversion gains or losses are presented in the income statement.

ii. *Monetary unit and foreign exchange regulations*

As of January 30, 2015, the Board of Directors of the Central Bank of Costa Rica, in article 5 of the minutes of session 5677-2015, established a managed floating exchange rate regime starting February 2, 2015, whose main aspects are detailed below:

- In this regime, the Central Bank of Costa Rica will allow the exchange rate to be freely determined by the foreign exchange market, but may participate in the market in a discretionary manner, to meet its own requirements of currency and those of the non-banking Public Sector, in order to avoid sharp exchange fluctuations.
- The Central Bank of Costa Rica may carry out direct operations or use forex held-for-trading instruments it deems appropriate in accordance with the current regulations.
- In its stabilization transactions, the Central Bank of Costa Rica will continue to use in the Foreign Currency Market (MONEX), the rules of engagement with the amendments provided for in this agreement. The Financial Stability Committee must determine the intervention procedures consistent with the strategy approved by the Board.

As established in the Chart of Accounts, assets and liabilities held in foreign currency should be expressed in colones at the exchange rate disclosed by the Central Bank of Costa Rica. Thus, as of September 30, 2020, monetary assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢606.68 for US\$1.00.

Valuation in colones of monetary assets and liabilities in foreign currency during the period ended September 30, 2020 gave rise to foreign exchange losses of ¢627.167.436.236 and gains for ¢632.514.177.112, which are presented net in the income statement.

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Notes to the unaudited separate financial statements

Additionally, valuation of other assets and other liabilities gave rise to gains and losses, respectively, which are recorded in “Other operating income” and “Other operating expenses”, respectively. For the period ended September 30, 2020 valuation of other assets gave gains of ¢1.384.15.754, and valuation of other liabilities gave rise to losses of ¢1.103.473.045.

*iii. Financial statements of foreign subsidiaries (BICSA)*

The financial statements of BICSA are presented in U.S. dollars

Those financial statements were converted to Costa Rican colones as follows:

- Assets and liabilities at the closing exchange rate.
- Income and expenses at the average exchange rates in effect during each year.
- Equity at historical exchange rates, using the exchange rate in effect on the dates of the transactions.

Valuation of the participation in the financial statements if this foreign subsidiary gave rise to net profits in the period ended September 30, 2020 for ¢926.327.205.

e. Basis of financial statements preparations

The financial statements have been prepared on the fair value basis for available-for-sale assets and trading financial instruments. Other financial and non-financial assets and liabilities are recorded at amortized or historical cost. The accounting policies have been consistently applied.

f. Financial instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank’s financial instruments include primary instruments: cash and due from banks, investments in financial instruments, loan portfolio, other receivables, obligations with the public, obligations with entities, and payables.

*(i) Classification*

Financial instruments at fair value with changes in profit or loss are those maintained by the Bank to generate short-term profits.

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Notes to the unaudited separate financial statements

Originated instruments are loans and other accounts receivable created by the Bank providing money to a debtor rather than with the intention of short-term profit taking.

Assets at fair value with changes through other comprehensive income are those financial assets that have not been kept at fair value through profit or loss, have not been originated by the Bank and will not be held to maturity.

*(ii) Recognition*

The Bank recognizes assets at fair value with changes through other comprehensive income at the time it becomes an obligated party, according to the contractual clauses of the instrument. From this date, any gains or losses arising from changes in the fair value of the assets are recognized in equity.

Held-to-maturity assets and originated loans and other accounts receivable are recognized using settlement date accounting, i.e. on the date they are transferred to the Bank.

*(iii) Measurement*

Financial instruments are measured initially at fair value, including transaction costs.

Subsequent to initial recognition, financial instruments at fair value with changes through other comprehensive income are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs less impairment losses.

All non-trading financial assets and liabilities, originated loans and other accounts receivable, and held-to-maturity investments are measured at amortized cost less impairment losses. Any premium or discount is included in the carrying amount of the underlying instrument and amortized to finance income or expense using the effective interest method.

*(iv) Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(v) *Gains and losses on subsequent measurement*

Gains and losses produced by a change in the fair value of assets with changes through other comprehensive income are recognized directly in equity, until an investment is considered impaired, at which time the loss is recognized in the income statement. When the financial assets are sold, collected, or otherwise disposed of, the cumulative gain or loss recognized in equity is transferred to the income statement.

(vi) *Derecognition*

A financial asset is derecognized when the Bank loses control over the contractual rights that comprise the asset. This occurs when the rights are realized, expire, or are surrendered. A financial liability is derecognized when it is extinguished.

IFRS 9 introduces the “business model” as one of the conditions for classifying financial assets; it recognizes that an entity may have more than one business model, and that financial assets are reclassified if the aforementioned model undergoes significant or exceptional changes.

According to the standard, the business model refers to the way in which a financial entity manages its financial assets to generate cash flows, which could be from:

1. Collect contractual cash flows
2. Sale of financial assets
3. A combination of both

Given the above, IFRS 9 introduces a new approach to classifying financial assets and requires that they be classified at the time of their initial recording (settlement date) into three valuation categories: (i) amortized cost, (ii) fair value through changes in other comprehensive income (equity) and (iii) fair value through changes in profit and loss.

Classification in these categories will depend on two aspects: the entity's business model (how an entity manages its financial instruments) and the existence or not of contractual cash flows of specifically defined financial assets.

- If the objective of the model is to maintain a financial asset in order to collect contractual cash flows and, according to the conditions of the contract, cash flows are received on specific dates that exclusively constitute payments of principal plus interest, the asset is will be valued at amortized cost.

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### Notes to the unaudited separate financial statements

- If the business model is aimed at both obtaining contractual cash flows and selling them to obtain liquidity and, according to the conditions of the contract, cash flows are received on specific dates that exclusively constitute payments of the principal plus interest, the financial asset will be valued at its fair value through changes in other comprehensive income (equity). Interest, impairment and exchange differences are recorded in results as in the amortized cost model. The rest of changes in fair value are recorded in equity items and may be recycled to profit and loss on their sale.
- Beside these scenarios, the rest of the assets will be valued at fair value through profit and loss. As indicated in the Financial Reporting Regulations, investment funds in open funds must be registered in this category. Due to their characteristics, open investment funds are those that do not present restrictions for their trading, therefore, within this category, mutual funds and money market type investment funds of international markets are included, which can be settled without restriction.

If the objective of an entity's business model undergoes significant changes, the reclassification of the instrument will be mandatory. However, the standard provides that this circumstance occurs very rarely, and when it exists, its disclosure is required according to IFRS 7, Financial Instruments: Disclosure Information.

g. Cash and cash equivalents

The Bank considers cash and due from banks, demand and term deposits, and investment securities that the Bank has the intent to convert into cash within two months or less to be cash and cash equivalents.

h. Investments in financial instruments

Investments in financial instruments that are classified at fair value through other comprehensive income are valued at market prices using the price vector provided by Proveedor Integral de Precios de Centroamérica, S.A. (PIPICA).

The effect of market price valuation at fair value through other comprehensive income is included in the equity account named "Adjustment for valuation of investments at fair value through other comprehensive income" until those investments are realized or sold.

In accordance with article 18 of the Financial Reporting Regulation, called IFRS 9, Financial Instruments: Financial Assets, the following is defined:

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1. The conventional purchase or sale of financial assets should be recorded applying the accounting on the settlement date.
2. Financial assets are divided into those that are measured at amortized cost and those that are measured at fair value.
3. Based on the business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset, the entity must classify its own investments or joint portfolios in financial assets according to the following valuation categories:
  - a. Amortized cost. If an entity, according to its business model and current regulatory framework, classifies a part of its investment portfolio in this category, it will disclose:
    - i. The fair value of financial assets classified in this category, in the quarterly financial statements and in the audited annual financial statement.
    - ii. The profit or loss that should have been recognized in the result for the period, for the financial statements indicated in the previous section.
  - b. Fair value through changes in other comprehensive income.
  - c. Fair value through changes in profit or loss: Participations in open investment funds must be recorded in this category.

In accordance with the characteristics that the Bank's portfolio must meet, based both on the Investment Management Policy and the current investment strategy, the management of the Bank's investment portfolio meets the characteristics of a business model whose main characteristic responds to managing financial assets to obtain contractual cash flows, as well as the occasional sales to meet liquidity requirements or investment portfolio management objectives, within the framework of the approved Investment Policy. In accordance with the foregoing, the financial assets that make up the Bank's investment portfolio meet the conditions to be valued at fair value through changes in other comprehensive income (equity). For purposes of defining a business model, these correspond to the main business model that characterizes the management of the Bank's investment portfolio.

However, it is required to determine the need of a "secondary" business model, whose characteristics of its comprising assets are determined by current regulations. Due to the need to manage liquidity in investment funds that the Bank currently keeps, these financial assets must be classified at fair value through changes in profit and loss, in accordance with the provisions of the Financial Reporting Regulations.

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Notes to the unaudited separate financial statements

In accordance with the liquidity objectives of the Bank's investment portfolio, the execution of future investments in closed funds does not apply, according to the Entity's business model; however, current investments in these instruments must be classified according with the established Regulation.

On the other hand, in accordance with provisions of Law 9274, both the Investment Management Policy of the Development Credit Fund and the current Investment Strategy, management of the investment portfolio in the Development Credit Fund meets the characteristics of a business model whose main characteristic responds to managing financial assets to obtain contractual cash flows, as well as the occasional sales to meet liquidity requirements or investment portfolio management objectives, in the framework of the approved Investment Policy. In accordance with the foregoing, the financial assets that make up the investment portfolio of the Development Credit Fund meet the conditions to be valued at their fair value through other comprehensive income (equity). For purposes of defining a business model, these correspond to the main business model that characterizes the management of the investment portfolio of the Fund.

However, it is required to determine the need of a “secondary” business model, whose characteristics of the comprising assets are determined by the current regulation. Due to the need to manage liquidity in investment funds that the Development Credit Fund currently keeps, these financial assets must be classified at fair value through profit and loss, in accordance with the provisions of the Financial Reporting Regulation.

In compliance with the provisions of the Financial Reporting Regulation with respect to IFRS 9, at the meeting of the General Board of Directors of October 29, 2019, the business model for the classification and valuation of own investments in financial assets for the Bank is approved according to the following valuation categories, in accordance with the defined business model:

- Main business model
  - Fair value through other comprehensive income (equity): those investments that are part of the investment portfolio will be classified under this category, the objective of which is to obtain contractual cash flows such as their sale and, according to the conditions of the contract, cash flows are received on specific dates that exclusively constitute payments of the principal plus interest.

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• Secondary business model

- Fair value through profit or loss: we will classify under this category, those investments in financial assets that, due to their characteristics, do not represent the possibility of generating cash flows on specific dates from the payment of interest according to the financial contract.
- In addition, and by definition of the Financial Reporting Regulation, investments in open funds will be classified at fair value through profit or loss. Financial assets with these characteristics are the following:
  - Local money market investment funds.
  - International money market investment funds.
  - International market mutual funds.

i. Loan portfolio

SUGEF defines credits as any operation formalized by a financial intermediary irrespective of the type of underlying instrument or document, whereby the intermediary assumes the risks of either directly providing funds or credit facilities or guaranteeing that their customer will honor its obligations with third parties. Credits include loans, factoring, purchases of securities, guarantees in general, advances, checking account overdrafts, bank acceptances, interest, open letters of credit, and preapproved lines of credit.

The loan portfolio is presented at the value of outstanding principal. Interest on loans is calculated based on the outstanding principal and contractual interest rates and is accounted for as income on the accrual basis of accounting. The Bank follows the policy of suspending interest accruals on loans with principal or interest that is more than 180 days past due.

j. Allowance for loan losses

The loan portfolio is valued in accordance with provisions established in SUGEF Directive 1-05 “Regulation for Qualifying Debtors”, which was approved by CONASSIF on November 24, 2005, published in Official Journal “La Gaceta” No. 238 on Friday, March 9, 2005, and became effective on October 9, 2006.

Loan operations approved for individuals or legal entities with a total outstanding balance exceeding ₡65.000.000 (Group 1 under SUGEF Directive 1-05). From May 23, 2019, the amount of ₡100,000,000 or its equivalent in foreign currency according to the sales rate set by the Central Bank of Costa Rica, is established as the limit of the total outstanding balances from the Credit operations of the debtors referred to in Article 4 of the Regulation for Qualifying Debtors, SUGEF Agreement 1-05. This classification considers the following:

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- Creditworthiness, which includes an analysis of projected cash flows, an analysis of financial position, consideration for experience in the line of business, quality of management, stress testing for critical variables, and an analysis of the creditworthiness of individuals, regulated financial intermediaries, and public institutions.
- Historical payment behavior, which is determined by the borrower's payment history over the previous 48 months, considering servicing of direct loans, both current and settled, in the National Financial System as a whole. SUGEF calculates the level of historical payment behavior for borrowers reported by entities during the previous month.
- Arrears
- Pursuant to the Directive, collateral may be used to mitigate risk for purposes of calculating the allowance for loan impairment. The market value of collateral should be considered and adjusted at least once annually. The percentage of acceptance of collateral is also a mitigating factor. Collateral must be depreciated six months after the most recent appraisal.

Risk categories are summarized below:

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

Loan operations, with a total outstanding balance is less than ¢65,000,000 (Group 2 under SUGEF Directive 1-05). From May 23, 2019, the amount of ¢100,000,000 or its equivalent in foreign currency according to the purchase rate set by the Central Bank of Costa Rica, is established as the limit of the total outstanding balances from the Credit operations of the debtors referred to in Article 4 of the Regulation for Qualifying Debtors, SUGEF Agreement 1-05. Loans are classified in the following categories based on historical payment behavior and arrears:

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

Borrowers are to be classified in risk category E if they fail to meet the conditions for classification in risk categories A through D mentioned above, are in bankruptcy, a meeting of creditors, court protected reorganization procedure, or takeover, or if the Bank considers classification in such category to be appropriate.

From June 2019, according to SUGEF Agreement 15-16, Regulation on Management and Assessment of Credit Risk for the Development Banking System, the its credit portfolio will be subject to risk classification based on the delinquency of the debtor and the number of restructuring that the debtor has been subject of, in any of its operations carried out within the framework of Law 9274, according to the following criteria:

<b>Risk Category</b>	<b>Classification Criteria</b>
1	a. Debtors up to date in the attention of their operations with the entity b. Debtors with delinquency of up to 30 days with the entity
2	Debtors with delinquency of more than 30 days and up to 60 days with the entity
3	a. Debtors with delinquency of more than 30 days and up to 60 days with the entity b. Debtors with delinquency less than 60 days with the entity and have presented delinquency with the SBD greater than 90 days in the last 12 months c. Debtors with delinquency less than 60 days with the entity, that have been subject to at least one restructuration in any operations with the entity during the last 12 months
4	a. Debtors with delinquency of more than 90 days and up to 120 days with the entity b. Debtors with delinquency less than 90 days and have presented delinquency with the SBD greater than 120 days in the last 12 months c. Debtors with delinquency less than 90 days, that have been subject to at least two restructuration in any operation with the entity during the last 12 months
5	Debtors with delinquency of more than 120 days and up to 180 days with the entity
6	Debtors with delinquency of more than 180 days with the entity

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The delinquency to be used must correspond to the debtor's maximum delinquency at the end of each month, in any of its operations carried out within the framework of Law 9274, with the entity or with the SBD, as appropriate.

Pursuant to SUGEF Directive 1-05: "Regulation for qualifying Debtors", as of January 1, 2014, the Bank must maintain a minimum amount of allowance resulting from the sum of generic and specific allowances, calculated in accordance with the Transitory XII.

The generic allowance will be equal to 0.5% of the total due balance, corresponding to the loan portfolio classified in A1 and A2 risk categories, without reducing the effect of mitigators of loan operations which apply to contingent claims.

The specific allowance is calculated on the covered and uncovered portion of each loan. The allowance on the exposed portion is equal to the total outstanding balance of each loan transaction minus the weighted adjusted value of the relevant security. The resulting amount is multiplied by the percentage that corresponds to the risk category. The allowance on the covered part of each credit operation is equal to the amount corresponding to the covered part of the operation, multiplied by the appropriate percentage.

From July 2016, in the case of the loan portfolio of individuals whose coverage ratio of debt service is above the reasonable indicator, an additional generic allowance of 1% should be applied on the indicated basis of calculation. In the case of individuals who have a mortgage or another type of loan (except consumer loans) or are transacting a new loan with the Bank, they will have a reasonable indicator of 35% and for consumer loans of individuals not secured by mortgage, a reasonable indicator of 30%.

The bank must keep this indicator updated, semiannually. SUGEF will verify the compliance in their normal supervisory duties.

In the case of loans denominated in foreign currency debtors placed among unhedged borrowers, an additional generic allowance of 1.5% must also be applied on the basis of calculation.

The indicated generic allowance will be applied cumulatively, so that in the case of unhedged debtors, with an indicator for service coverage greater than the reasonable indicator, the generic allowance applicable will be at least of 3% (0.5% + 1% + 1.5%).

Classification categories and specific allowance percentages for each risk category are as follows:

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<b>Risk category</b>	<b>Specific allowance percentage on the uncovered portion of the loan</b>	<b>Specific allowance percentage on the covered portion of the loan</b>
A1	0%	0%
A2	0%	0%
B1	5%	0,5%
B2	10%	0,5%
C1	25%	0,5%
C2	50%	0,5%
D	75%	0,5%
E	100%	0,5%

As of January 1, 2014, as an exception in the case of risk category E, the minimum allowance for loans to a borrower whose historical payment behavior is rated as level 3 is to be calculated as follows:

<b>Arrears</b>	<b>Specific allowance percentage on the uncovered portion of the loan</b>	<b>Specific allowance percentage on the covered portion of the loan</b>	<b>Creditworthiness (Borrowers Group 1)</b>	<b>Creditworthiness (Borrowers Group 2)</b>
30 days or less	20%	0,5%	Level 1	Level 1
60 days or less	50%	0,5%	Level 2	Level 2
More than 61 days	100%	0,5%	Level 1, Level 2,	Level 1 or Level 2

From July 2016, pursuant to SUGEF Directive 19-16, Agreement, "Regulation to determine and record of countercyclical allowance", a generic allowance is applied to that credit portfolio that shows no evidence of current impairment, as determined by the level of allowance expected in periods of economic recession and whose purpose is to mitigate the effects of the economic cycle on the financial results derived from the allowance for non-payment of loan portfolio. On a monthly basis, the Bank must record the expense per counter-cyclical component equivalent to a minimum of 7% of the positive result of the difference between income and expenses, before taxes and profit sharing of each month, until the balance of the account of the countercyclical component reaches the amount corresponding to the required balance of allowance for the entity. At the entry into force of this regulation, the required minimum percentage level of countercyclical allowance is 0.33%.

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As of March 31, 2019, the entity reached the target level of contracyclical allowance and is under the regulation of the formula established in Article 4 of the “Calculation of the requirement of contracyclical allowance” of the Regulation to determine and record countercyclical allowances”, SUGEF 19-16. The entity will continue to accumulate or disaccumulate, in accordance with the methodology established in the article and Article 5 “Accounting Registry” of that regulation.

As of September 30, 2020, the total allowance of the loan portfolio reflected in the accounting records amounts to ₡95.460.346.336.

As of September 30, 2020, the increases in the allowance for bad debts resulting from the minimum allowance are included in the accounting records, in compliance with article 17 of SUGEF Agreement 1-05 “Regulation for the qualification of debtors”, with prior authorization from the supervising entity, in accordance with article 10 of the Organic Law of the National Banking System.

As of September 30, 2020, management considers the allowance to be sufficient to absorb any potential losses that could be incurred on recovery of the portfolio.

Accounts and accrued interest receivable

To assess the risk of accounts and accrued interest receivable unrelated to loan operations, the Bank considers the arrears of the accounts based on ranges established for other assets in SUGEF Directive 1-05 adopted by CONASSIF.

<u>Arrears</u>	<u>Allowance percentage</u>
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%

Until IFRS 9, Financial Instruments, is implemented for the credit portfolio of financial intermediaries, the provisions established in the Regulation for the qualification of debtors, to quantify the credit risk and constitute the corresponding allowance, will be maintained in force and the entities will continue to calculate those allowances according to the methodology provided.

k. Securities sold under repurchase agreements

The Bank enters into sales of securities under repurchase agreements for a certain date in the future at a fixed price. The obligation to repurchase securities sold is reflected as a liability in the separate balance sheet and stated at the value of the original agreement. The underlying securities are held in asset accounts. Finance expense recognized is calculated by the effective interest method. Interest is presented as finance expense in the separate income statement, and accrued interest payable in the separate balance sheet.

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l. Accounting for accrued interest receivable

Interest receivable is accounted for on the accrual basis. Under current regulations, interest accrual is suspended on loan operations that are more than 180 days past due. Accrued interest receivable on those loans is recorded when collected.

m. Other receivable

The recoverability of these accounts is assessed by applying criteria similar to those established by SUGEF for the loan portfolio. If an account is not recovered within 120 days from the due date or the date recorded, an allowance is created for 100% of the outstanding balance. Accounts with no specified due date are considered payable immediately.

n. Foreclosed assets

Foreclosed assets are assets owned by the Bank for realization or sale. Included in this account are assets acquired in lieu of payment, assets adjudicated in judicial auctions, assets purchased to be leased under finance and operating leases, goods produced for sale, idle property and equipment, and other foreclosed assets.

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

The net realizable value of an asset should be used as its fair value. The net realizable value is determined by applying strictly conservative criteria and is calculated by subtracting expenses to be incurred on 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. Future expectations for market improvements are not considered and it is assumed that the assets must be sold in the shortest period of time possible to enable the Bank to recover the money invested and use it for its business activities. For all foreclosed assets, the Bank should have reports from the appraisers who made the appraisals, and those reports are to be updated at least annually. If an asset recorded in this group is used by the Bank, it should be reclassified to the appropriate account in the corresponding group.

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

Pursuant to article 20-b of SUGEF Directive 1-05, the Regulated Entities are required to book an allowance for retired assets and for foreclosed assets that were not sold or leased under operating or finance leases within two years from the acquisition or production date for an amount equivalent to the carrying amount of the assets. The allowance must be established gradually by recording one-twenty-fourth of the value of such assets each month until the allowance is equivalent to 100% of the carrying amount of the assets, without exception. The recording of the allowance shall begin at month-end of the month in which the asset was i) acquired, ii) produced for sale or lease, or iii) retired from use.

o. Offsetting

Financial assets and liabilities are offset, and the net amount presented in the separate financial statements when the Bank has a legal right to set off the recognized amounts and intends to settle on a net basis.

p. Property, furniture and equipment

*(i) Own assets*

Property and equipment is depreciated on the straight-line method over the estimated useful lives of the assets for both tax and financial purposes. Leasehold improvements are amortized straight line over a period of sixty months, starting the month after the deferred charge is recorded. Leasehold improvements are amortized solely at the end of the term of the lease agreement. When the lessor or the Bank notifies the other party that it does not intend to renew the lease at the end of the original lease term or extension, the remaining balance is amortized over the remainder of the lease term.

Pursuant to requirements established by regulatory authorities, the Bank must have its real property appraised by an independent appraiser at least once every five years, to determine its net realizable value. If the realizable value is less than the carrying amount, the carrying amount must be adjusted to the appraisal value.

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(ii) *Leased assets*

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases.

At the beginning of the lease term, this is recognized in the statement of financial position, as an asset and a liability by the same amount, the fair value of the leased assets, or the present value of minimum lease payments, if this were the lowest between the present value of the stipulated payments in the contract discounted at the interest rate implicit in the operation, determined at the beginning of the lease. To calculate the present value of the minimum payments by the lease, the interest rate implicit in the lease is taken as a discount factor, wherever practicable to determine; otherwise the incremental interest rate of the tenant loans is used. Any initial direct cost of the tenant will be added to the amount recognized as an asset.

(iii) *Subsequent cost*

Costs incurred to replace a component of an item of property and equipment are capitalized and accounted for separately. Subsequent costs are only capitalized when they increase the future economic benefits. All other costs are recognized in the separate income statement when incurred.

(iv) *Depreciation*

Depreciation and amortization are charged to the income statement on the straight-line method using the annual depreciation rates established for tax purposes. When appraisals made by independent appraisers determine that the technical useful life is less than the remaining useful life calculated using applicable rates for tax purposes, the technical useful life is to be used. Estimated useful lives are as follows:

	<u>Useful lives</u>
Building	50 years
Vehicles	10 years
Furniture and equipment	10 years
Computer hardware	5 years
Improvements	5 years

(v) *Revaluation*

At least every five years financial entities should evaluate the real estate by appraisals, stating the net realizable value of the property.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

If the realizable value of the assets is different than the one included in the accounting records, the Bank must adjust the book value to the resulting value of the appraisal.

These assets are depreciated by the straight-line method for financial and tax purposes, based on the expected life of the respective assets.

The last appraisal was done on 2015 and the accounting record on November 30, 2015.

q. Deferred charges

Deferred charges are valued at cost and stated in local currency. These charges are not subject to revaluations or adjustments.

r. Deferred charges

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and impairment losses.

Amortization of IT systems is charged to profit or loss on a straight-line basis over the estimated useful lives of the related assets. The estimated useful life is five years.

Subsequent expenditures or disbursements are capitalized only when they increase the future economic benefits; otherwise are recognized on results as incurred.

s. Impairment of assets

The carrying amount of an asset is reviewed at each separate balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the separate income statement for assets carried at cost, and treated as a decrease in revaluation surplus for assets recorded at revalued amounts, until the amount of the surplus of the specific asset is sufficient to absorb the impairment loss.

The recoverable amount of an asset is the greater of its net selling price and value in use. The net selling price is equivalent to the value obtained in an arm's length transaction. Value in use is the present value of future cash flows and disbursements derived from continuing use of an asset and from its disposal at the end of its useful life.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

If in a subsequent period the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after impairment loss was determined, the loss is reversed through the separate income statement or separate statement of changes in equity, as appropriate.

SUGEF establishes: regardless of the previously expressed, at least once every five years, financial institutions must have its property appraised by an independent appraiser, in order to determine the net realizable value of property and buildings, whose net book value exceeds 5% of the entity's equity. If the net realizable value of the assets appraised, taken as a whole, is less than the corresponding net carrying amount, the carrying amount is to be reduced to the appraisal value by adjusting assets that are significantly overstated. The decrease in the value of real property for use is taken against account "331 – Adjustments for revaluation of assets".

In cases where an entity is aware of a significant overstatement in the carrying amount of one or more assets, regardless of the cause of the reduction in their value and/or the useful life originally assigned, the entity must hire an appraiser to perform a technical appraisal, immediately notify SUGEF of the results, and book the applicable adjustments in the accounting records.

t. Obligations with the public

These are current obligations of the resources available to the Bank for the realization of its purposes provided by external sources, which are virtually inescapable and are reasonably identifiable and quantifiable.

u. Accounts payable and other payables

Accounts payable and other payables are recognized at cost.

v. Legal benefits (severance)

Costa Rican legislation requires from the Bank and its subsidiaries domiciled in Costa Rica payment of severance benefits to employees dismissed without just cause, equivalent to seven days' salary for employees with three to six months of service, 14 days salary for employees with between six months to one year of service, and compensation in accordance with the Employee Protection Law for those with more than one year of service.

In February 2000, the Employee Protection Law was enacted and published, which modifies the existing severance benefit system and establishes a mandatory supplemental pension plan, thereby amending several provisions of the Labor Code.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

Pursuant to the Employee Protection Law, all public and private 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.

The Bank follows the practice of transferring to the Employees Association the severance benefits corresponding to each employee based on the employee's current salary.

The amount of severance benefit not transferred to the Association is provisioned in accordance with the employer's legal obligation.

w. Legal reserve

According to Article 12 of the Organic Law of the National Banking System the Bank sets aside 50% of net earnings after income tax to increase its Legal Reserve.

x. Revaluation surplus

Revaluation surplus included in equity may be transferred directly to undistributed profits when the surplus is realized. The whole surplus is realized on the retirement, disposal, or use of the asset corresponding. The transfer of revaluation surplus to prior period retained earnings should not be made through the separate income statement. The Bank was authorized by SUGEF to capitalize revaluation surplus by increasing share capital

y. Use of estimates

Management has made several estimates and assumptions relating to the reporting of assets, liabilities, profit or loss, and the disclosure of contingent liabilities in preparing these separate financial statements. Actual results may differ from those estimates. Material estimates that are particularly susceptible to significant changes are related to the determination of the allowance for loan impairment.

z. Recognition of main types of revenue and expenses

(i) *Financial income*

Financial income and expense are recognized in the separate income statement as it accrues considering the effective yield or interest rate. Financial income and expense include amortization of any premium or discount during the term of the instrument and until its maturity and is calculated on an effective interest basis.

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(ii) *Fees and commissions income*

When loan originated fees are generated, they are taken against effective yield, and they are deferred over the loan term. Service fees and commissions are recognized when the services are rendered. In the case of other commissions related to the provision of services, these are recognized when the service is provided.

(iii) *Net income on trading securities*

Net income on trading securities includes gains and losses arising from sales and from changes in the fair value of trading assets and liabilities.

(iv) *Operating lease expenses*

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

aa. Income tax

Pursuant to the Income Tax Law, the Bank and its subsidiaries are required to file their income tax returns for the twelve months period ending December 31 of each year.

(i) *Current*

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

(ii) *Deferred*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial purposes and the amounts used for taxation purposes. In accordance with this method, temporary differences are identified as either taxable temporary differences (which result in future taxable amounts) or deductible temporary differences (which result in future deductible amounts). A deferred tax liability represents a taxable temporary difference, while a deferred tax asset represents a deductible temporary difference. A deferred tax asset is recognized only to the extent there is a reasonable probability that it will be realized.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

bb. Pension, retirement and outgoing personnel

A fund was created by Law No. 16 of November 5, 1936, which has been amended on several occasions. The most recent amendment was included in Law No. 7107 of October 26, 1988. Pursuant to Law No. 16, the fund was established as a special wage protection and retirement system for the Bank's employees. The fund is comprised of allotments established by the laws and regulations related to the fund, and monthly contributions made by the Bank and employees equivalent to 10% and 0.5% of total wages and salaries, respectively. As of October 1, 2007, this fund is managed by BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A. (subsidiary) under a comprehensive management agreement.

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

cc. Statutory allocations

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 the National Institute for Cooperative Development (INFOCOOP); and the remainder to increase the Bank's capital, pursuant to article 20 of Law No. 6074. Transition provision III of Law No. 8634 "Development Banking System" establishes that for a five-year period starting in 2007, the contributions made by State-owned banks equivalent to 5% of their annual net earnings (prescribed by article 20 of the Law for the creation of the National Commission for Educational Loans (CONAPE) will be allocated as follows: two percent (2%) to CONAPE and three percent (3%) to the capital of the Development Financing Fund (FINADE). On January 2013 transitory III is removed and will continue calculating a 5% for CONAPE, in accordance with law 9092, Return of Income of the National Commissions for Educational Loans.

In accordance with article 46 of the "National Emergency and Risk Prevention Act", all institutions of the central administration and decentralized public administration, as well as State-owned companies, 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. The expenditure for CNE is calculated as 3% of income before taxes and profit appropriations.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

Pursuant to article 78 of the Employee Protection Law, State-owned public entities must contribute up to 15% of their earnings with the purpose of strengthening the funding base for the Disability, Old Age, and Death Benefit System of CCSS and to provide universal CCSS coverage for impoverished non-salaried workers. According to Executive Decree number 37127-MTSS, beginning in 2013 a progressive yearly contribution from net earnings must be set aside beginning with 5% in 2013, up to 7% beginning in 2015 and 15% in 2017.

dd. Development Financing Fund

In accordance with article 32 of Law No. 8634 “Development Banking System”, all State-owned banks, except Banco Hipotecario para la Vivienda (BANHVI), shall appropriate each year at least five percent (5%) of their net earnings after income taxes to the creation and strengthening of its 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 law (See note 35).

ee. Development Credit Fund

The Development Credit Fund (DCF) comprised of the resources provided in Article 59 of the Organic Law of the National Banking System, No.1644, commonly called “Banking Toll,” will be managed by the State Banks. In compliance with Law No. 9094 “Derogatory of Transitory VII-Law No. 8634,” and in accordance with Article 35 of Law No. 8634 “Development Banking System”, in meeting 119 of January 16, 2013, by agreement number AG 1015-119-2013, it is agreed to appoint Banco de Costa Rica and Banco Nacional de Costa Rica as managers for a five-year period from the signature of the respective management agreements. Each bank is responsible for managing fifty percent (50%) of the Fund.

The Technical Secretariat of the Governing Board through written communication CR/SBD-014-2013 informed all private banks to open up checking accounts with each of the administrators’ banks (Banco Nacional and Banco de Costa Rica), both in colones and foreign currency with the obligation to distribute fifty percent of the resources to each bank.

The powers granted by the Governing Board to the Administrators are:

- a) Administrators’ banks can perform services with the beneficiaries of the Development Banking System as recognized by Article 6 of Law 8634.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

- b) In accordance with Article 35 of the Law 8634 with funds from the Development Credit Fund the Banks can perform services for other financial entities, except for private banks provided they meet the objectives and obligations under Law 8634 and that are duly accredited by the Board.
- c) The Banks may proceed or carry on in accordance with Article 35 Law 8634 the resources of the Development Credit Fund through: associations, cooperatives, foundations, NGO, producers organizations or other entities if they have credit operations in programs that meet the objectives established in the Law 8634 and are duly accredited by the Board.

The contract signed for a five-year term will be renewable for equal and successive periods unless otherwise decided by the Governing Board, notified in writing at least three months in advance. It may be terminated as provided for in Article 12 paragraph j) of the Law 8634 and its executive regulations, if the Banks Administrators demonstrate proven lack of capacity and expertise. (See note 36).

ff. Economic period

The economic fiscal period corresponds to the period ended on December 31 of every year.

(2) Collateralized or restricted assets

The collateralized or restricted assets are as follows:

	<b>September 2020</b>
Cash due from banks (see note 4)	¢ <u>573.004.495.135</u>
	¢ <u><b>573.004.495.135</b></u>

(3) Balances and transactions with related parties

The separate financial statements include balances and transactions with related parties, as follows:

	<b>September 2020</b>
<b>Assets:</b>	
Availabilities	¢ 36.484.920.144
Loan portfolio	217.856.600
Accounts receivable	7.126.336.366
Investments in other companies	118.137.052.695
Total assets	¢ <u><b>161.966.165.805</b></u>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

**Liabilities:**

Obligations with the public	¢	4.418.693.241
Total liabilities	¢	<u><u>4.418.693.241</u></u>

**Income:**

Financial income	¢	287.897.131
Income from investments in other companies		8.775.315.148
Sundry operating income		2.877.165.424
Total income	¢	<u><u>11.940.377.703</u></u>

**Expenses:**

Finance expense	¢	57.281.229
Expense from investments in other companies		186.931.157
Sundry operating expenses		1.705.440.528
Total expenses	¢	<u><u>1.949.652.914</u></u>

**Equity:**

Adjustment for valuation of investments in other companies	¢	<u><u>(737.754.804)</u></u>
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As of September 30, 2020, there are no amounts in investments for participations in funds managed by BCR Sociedad Administradora de Fondos de Inversión, S. A. (subsidiary company).

The amount paid for remunerations to key personnel is detailed as follows:

		<u>September 2020</u>
Short-term benefits	¢	687.365.983
Board per-diem		66.694.476
	¢	<u><u>754.060.459</u></u>

(4) Availabilities

Cash and cash equivalents are as follows for purposes of reconciliation with the separate cash flow statement:

		<u>September 2020</u>
Cash	¢	88.030.937.464
Demand deposits BCCR		557.496.767.778
Checking accounts and demand deposits in local financial entities		53.349.200.981
Notes payable on demand		2.540.049.933
Restricted availabilities		446.140.848
<b>Total cash and due from Banks</b>		<b>701.863.097.004</b>
Investments in trading financial instruments		306.953.980.382
<b>Total cash and cash equivalents</b>	¢	<u><u>1.008.817.077.386</u></u>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

As of September 30, 2020, demand deposits in the Central Bank of Costa Rica (BCCR) are restricted to comply with the minimum legal reserve for ₡573.004.495.135.

As of September 30, 2020, there is a liability called “checks receivable” for an amount of ₡1.467.209.640, which are cleared with the account of immediate collection documents, in the clearinghouse the next day.

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	<b>September 2020</b>
At fair value through profit or loss	₡ 82.667.587.657
At fair value through other comprehensive income	967.130.672.998
At amortized cost	191.694.389.590
Interest receivable for investments at fair value through other comprehensive income	10.638.783.524
Allowance for investments in default	(102.666)
	<u>₡ 1.252.131.331.103</u>

	<b>September 2020</b>
	<b>Fair value</b>
<u>Local issuers:</u>	
Open investment funds	₡ 82.667.587.657
	<u>82.667.587.657</u>
	<u>82.667.587.657</u>

	<b>September 2020</b>
	<b>Fair value</b>
<b>At amortized cost</b>	
<u>Local issuers:</u>	
Government (see note 18)	₡ 190.773.194.690
State-owned Banks	921.194.900
	<u>₡ 191.694.389.590</u>

	<b>September 2020</b>
	<b>Fair value</b>
<b>At fair value through other comprehensive income</b>	
<u>Local issuers:</u>	
Government	₡ 792.172.718.665
State-owned Banks	161.607.998.377
Private Banks	3.254.961.057
Private issuers	10.094.994.899
	<u>967.130.672.998</u>
	<u>₡ 967.130.672.998</u>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

As of September 30, 2020, the investment portfolio amounts to ¢156.670.321.744 corresponding to the managed amounts of the Development Credit Fund (See note 36).

Maturities for investments in financial instruments are from October 01, 2020 to May 26, 2025.

Purchased financial instruments earn annual yield rates as follows:

	<u>September 2020</u>
Colones	0,0099% a 9,5288%
US Dólares	0,0099% a 9,5837%

As of September 2020, 2020, there are no investments that are granted as collateral (see note 2).

Repurchase operations

The Bank purchases financial instruments through agreements in which it binds to sell the financial instruments at future dates at previously agreed upon price and yield.

As of September 30, 2020, purchased financial instruments remain under resale agreements.

<u>Issuer</u>	<u>Asset's balance</u>	<u>Guarantee's four value</u>	<u>Repurchase date</u>	<u>Repurchase Price</u>
Local government	¢ 30.669.749.982	36.656.282.280	01-10-2020 to 30-10-2020	100,00%
Others	921.194.899	1.000.000.000	23-10-2020 to 06-11-2020	100,00%
	<u>¢ 31.590.944.881</u>	<u>37.656.282.280</u>		

(6) Loan portfolio

(a) Loan portfolio by sector

	<u>September 2020</u>
<b>Current loans</b>	
Loans – Personal	¢ 1.077.871.493.459
Loans Development Banking System	44.993.843.369
Loans - Business	86.292.431.950
Loans - Corporate	1.166.425.494.970
Loans – Public Sector	115.123.601.038
Loans – Financial Sector	128.897.600.840
	<u>2.619.604.465.626</u>
<b>Past due loans</b>	
Loans – Personal	133.042.241.082
Loans Development Banking System	2.093.342.142
Loans - Business	20.677.648.047
Loans - Corporate	81.606.765.248
Loans – Public Sector	260.693
	<u>237.420.257.212</u>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

**Loans in legal collection**

Loans – Personal	37.742.992.680
Loans Development Banking System	195.860.386
Loans - Business	4.971.292.541
Loans - Corporative	6.715.271.975
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	49.625.417.582
	<hr/>
	<b>¢ 2.906.650.140.420</b>
	<hr/> <hr/>

The total loans receivable originated by the Bank by activity are as follows:

(b) Loan portfolio by activity

<b>Sector</b>	<b>September 2020</b>
Agriculture, livestock, hunting and related services	¢ 151.155.278.905
Manufacturing	246.429.096.808
Telecommunications and public utilities	55.039.038.547
Mining and quarrying	40.481.134
Trade	13.086.843.303
Services	947.778.973.346
Transportation	38.401.700.006
Financial and stock exchange	4.136.656.952
Real estate, business and leasing	3.799.076.434
Construction, purchase and repair of real estate	1.044.044.202.694
Consumer	297.289.999.668
Hospitality	100.920.715.017
Education	3.051.917.116
Other activities of the non-financial private sector	1.476.160.490
	<hr/>
	2.906.650.140.420
Interest receivable	33.074.083.442
Deferred income from loan portfolio	(16.707.775.563)
Less allowance for loan losses	(95.460.346.336)
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	<b>¢ 2.827.556.101.963</b>
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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(c) Loan portfolio by arrears

The loan portfolio by arrears is detailed as follows:

	<b>September 2020</b>
Current	¢ 2.619.604.465.626
De 1 a 30 días	116.837.253.836
31 to 60 days	54.476.075.529
61 to 90 days	16.576.422.879
91 to 120 days	12.102.146.779
121 to 180 days	11.569.593.682
More tan 181 days	75.484.182.090
	<b>¢ 2.906.650.140.421</b>

The Bank classifies as past due and delinquent those loans that have not made principal or interest payments for one day after the agreed date.

(d) Past due loans

The past due loans, including loans in accrual status and unearned interest on past due loans, are as follows:

	<b>September 2020</b>
Number of operations	2.881
Past due loan in nonaccrual status	¢ 75.484.182.091
Past due loans in accrual status	¢ 211.561.492.703
Total, unearned interest	¢ 10.689.617.662

Loans in legal collections as of September 30, 2020:

<u>No. of loans</u>	<u>Percentage</u>	<u>Balance</u>
1,319	1,71%	¢ <u>40.625.417.582</u>

As September 30, 2020, the average annual interest rate earned on loans is 8,74% in colones and 5,66% in U.S.

(Continue)



BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(e) Accrued interest receivable on loan portfolio

Interest receivable by economic sector are detailed as follows:

	<b>September 2020</b>
Loans - Personal	¢ 14.259.129.859
Loans Development Banking System	244.117.880
Loans - Business	2.151.969.140
Loans - Corporate	15.138.059.673
Loans – Public Sector	781.749.856
Loans – Financial Sector	499.057.034
	<b>¢ 33.074.083.442</b>

Interest receivable by aging are detailed as follows:

	<b>September 2020</b>
Current loans	¢ 25.043.935.327
Past due loans	5.455.620.478
Loans in legal collections	2.574.527.637
	<b>¢ 33.074.083.442</b>

(f) Allowance for loan impairment

Movement in the allowance for loan impairment, is as follows:

<b>2020 opening balance</b>	<b>¢ 86.096.482.964</b>
Plus:	
Allowance charged to profit or loss (see note 25)	18.706.803.234
Transfer of balances	285.579.312
Adjustment for foreign exchange differences	2.473.023.094
Less:	
Adjustment for foreign exchange differences	(259.391.390)
Transfer paid balances	(2.248.118.540)
Reversal of allowance against income (see note 26)	(9.594.032.338)
<b>Balance as of September 30, 2020</b>	<b>¢ 95.460.346.336</b>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(g) Syndicated loans

As of September 30, 2020, the Bank's syndicated loan portfolio is as follows:

	<u>Number of Operations</u>	<u>Syndicated balance other</u>	<u>Syndicated balance BCR</u>	<u>Total balance</u>
Banco Internacional de Costa Rica, S.A.	2	¢ 6.122.445.891	11.498.548.780	17.620.994.671
	<u>2</u>	<u>¢ 6.122.445.891</u>	<u>11.498.548.780</u>	<u>17.620.994.671</u>

These operations did not generate the Bank revenue for the administration of syndicated loans.

(7) Foreclosed assets, net

The foreclosed assets are presented net of the allowance for impairment and per legal requirement, as follows:

	<u>September 2020</u>
Real property	¢ 140.428.751.626
Other acquired assets	739.696.011
Purchased for sale	663.973.814
Idle property and equipment	2.158.714.499
	<u>143.991.135.950</u>
Allowance for impairment and per legal requirement	(98.644.170.960)
	<u>¢ 45.346.964.990</u>

The movement of the foreclosed assets is as follows:

	<u>September 2020</u>
<b>At the beginning of the year</b>	<b>134.898.824.316</b>
Increase of foreclosed assets	29.579.615.576
Transfer of property, furniture, and equipment out of use	51.471.091
Increase in acquired-for-sale assets	1.805.774.399
Sale of assets	(21.039.112.984)
Withdrawal of property, furniture and equipment out of use	(1.305.436.449)
<b>Balance at the end of the period</b>	<b><u>143.991.135.949</u></b>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

The movement in the allowance of foreclosed assets is as follows:

	<b>September 2020</b>
<b>Opening balance</b>	¢ <b>96.791.602.487</b>
Increases in allowance	19.922.517.262
Reversals in allowance	(17.372.298.563)
Transfer to unused accounts	(687.959.336)
Adjustment in allowance for revaluation surplus	(9.690.890)
<b>Balance at the end of the period</b>	¢ <b>98.644.170.960</b>

(8) Investments in other companies

Investments in other companies are as follows:

	<b>September 2020</b>
<u>Local entities:</u>	
BCR Valores, S.A. (brokerage firm)	¢ 21.114.845.362
BCR Sociedad Administradora de Fondos de Inversión, S.A. (investment fund manager company)	8.418.368.297
BCR Pensión, Operadora de Planes de Pensiones Complementarias, S.A. (pension fund operator)	5.593.603.411
BCR Corredora de Seguros, S.A. (insurance broker)	7.558.487.021
Banprocesa, S.R.L.	415.554.557
Depósito Agrícola de Cartago S.A.	904.391.726
	<b>44.005.250.374</b>
<u>Foreign entities:</u>	
Banco Internacional de Costa Rica, S.A. and subsidiary	74.131.802.321
	¢ <b>118.137.052.695</b>

As of June 30, 2020, BCR Corredora de Seguros, S.A. distributed dividends in the amount of ¢3.000.000.000, in compliance with resolution of the Extraordinary General Shareholder's Meeting N° 20-2020, of June 2, 2020 and as of August 31, 2020 in the amount of ¢2.500.000.000.

As of July 17, 2020, BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A., distributed dividends in the amount of ¢1.158.000.000, in compliance with resolution of the Extraordinary General Shareholder's Meeting N° 20-2020, of June 2, 2020.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

As of September 9, 2020, BCR Sociedad Administradora de Fondos de Inversión, S.A., distributed dividends in the amount of ¢4.500.000.000, in compliance with resolution of the Extraordinary General Shareholder's Meeting N° 20-2020, of June 2, 2020.

As of September 25, 2020, BCR Valores, S.A., distributed dividends in the amount of ¢4.500.000.000, in compliance with resolution of the Extraordinary General Shareholder's Meeting N° 20-2020, of June 2, 2020.

Banco Internacional de Costa Rica, S.A. and subsidiary (BICSA) was organized as a bank under the laws of the Republic of Panamá in 1976. It operates under a general license granted by the Superintendence of Banks of Panama to engage in banking transactions in Panama or abroad. BICSA is in the city of Panama, Republic of Panama, BICSA Financial Center, 50 floor, Avenida Balboa and Calle Aquilino de la Guardia.

The Bank owns a 51 % ownership interest in BICSA (domiciled in Panamá). As of September 30, 2020, that ownership interest is represented by 6.772.137 ordinary shares of US\$10 par value each. Banco Nacional de Costa Rica owns the remaining 49% of shares.

The Bank follows the policy of adjusting the value of its investment in BICSA by the equity method. In applying this policy, the Bank considers the entity's results of operations, as well as the variation in equity (in colones) arising from adjustments to equity by applying the year-end exchange rate with respect to the U.S. dollar, in addition to changes resulting from revaluations. Such variation results from the fact that BICSA's accounting records are kept in U.S. dollars.

The Bank's income statement as of September 30, 2020 includes ¢926.327.205, respectively, for BICSA's result of operations.

The Bank's statement of changes in equity for the period ended September 30, 2020, includes an increase in equity for ¢4.715.414.685, corresponding to changes arising from translation of BICSA's financial statements.

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(9) Property and equipment

As of September 30, 2020, property and equipment is as follows:

<u>Cost:</u>	<u>Land</u>	<u>Building</u>	<u>Furniture and equipment</u>	<u>Computer hardware</u>	<u>Vehicles</u>	<u>Finance leases</u>	<u>Total</u>
<b>Balance at December 31, 2019</b>	¢ <b>34.441.191.347</b>	<b>70.190.737.721</b>	<b>35.605.059.007</b>	<b>43.026.103.436</b>	<b>5.077.339.307</b>	<b>0</b>	<b>188.340.430.818</b>
Additions	650.499.030	1.772.267.165	1.247.144.381	2.522.590.134	159.695.489	36.405.930.027	42.758.126.226
Withdrawals	0	0	(1.028.058.512)	(1.682.818.897)	0	(9.502.146.974)	(12.213.024.383)
Transfers	0	0	(753.717.915)	(300.707.757)	(37.010.500)	(6.917.422.813)	(8.008.858.985)
<b>Balance at September 30, 2020</b>	<b>35.091.690.377</b>	<b>71.963.004.886</b>	<b>35.070.426.961</b>	<b>43.565.166.916</b>	<b>5.200.024.296</b>	<b>19.986.360.240</b>	<b>210.876.673.676</b>
<b><u>Accumulated depreciation and impairment</u></b>							
<b>Balance at December 31, 2019</b>	<b>0</b>	<b>22.439.602.647</b>	<b>22.177.690.125</b>	<b>27.655.235.295</b>	<b>3.568.963.239</b>	<b>0</b>	<b>75.841.491.306</b>
Translation effect	0	0	0	0	0	0	0
<b>Adjusted balance</b>	<b>0</b>	<b>22.439.602.647</b>	<b>22.177.690.125</b>	<b>27.655.235.295</b>	<b>3.568.963.239</b>	<b>0</b>	<b>75.841.491.306</b>
Depreciation expense	0	1.339.367.758	1.676.828.280	3.660.572.718	198.514.691	2.265.349.926	9.140.633.372
Adjustment from previous periods	0	0	0	0	0	0	0
Withdrawals	0	0	(992.902.376)	(1.676.126.646)	0	(460.532.145)	(3.129.561.167)
Transfers	0	0	(701.558.598)	(309.184.082)	(37.010.500)	(472.393.765)	(1.520.146.945)
<b>Balance at September 30, 2020</b>	¢ <b>0</b>	<b>23.778.970.405</b>	<b>22.160.057.431</b>	<b>29.330.497.285</b>	<b>3.730.467.430</b>	<b>1.332.424.016</b>	<b>80.332.416.567</b>
Balance net:							
<b>September 30, 2020</b>	¢ <b>35.091.690.377</b>	<b>48.184.034.481</b>	<b>12.910.369.530</b>	<b>14.234.669.631</b>	<b>1.469.556.866</b>	<b>18.653.936.224</b>	<b>130.544.257.109</b>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(10) Other assets

(a) Other deferred charges

Other deferred charges are detailed as follows:

	<b>September 2020</b>
Improvements in property in operating lease	¢ 949.890.821
Pre-issuance costs of financial instruments	614.180.297
Other deferred charges	<u>6.218.367.140</u>
	<u>¢ 7.782.438.258</u>

(b) Intangible assets

Net intangible assets correspond to computer systems. These assets are detailed as follows:

<i>Cost:</i>	
<b>Balance as of December 31, 2019</b>	¢ <b>39.568.772.259</b>
Additions to computer systems	3.512.989.773
Transfer balances	<u>(742.211.295)</u>
<b>Balance as of September 30, 2020</b>	<u><b>42.339.550.737</b></u>
<i>Accumulated amortization and impairment:</i>	
<b>Balance as of December 31, 2019</b>	<b>30.565.567.290</b>
Expense for amortization of computer systems	2.963.581.509
Adjustment against loan portfolio allowance	9.479.014
Withdrawals	<u>(1.026.859.086)</u>
<b>Balance as of September 30, 2020</b>	<u><b>32.511.768.727</b></u>
<i>Balances, net:</i>	
<b>Balance as of September 30, 2020</b>	¢ <u><b>9.827.782.010</b></u>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(c) Other assets

Other assets are detailed as follows:

	<b>September 2020</b>
Prepaid taxes	¢ 8.302.269.932
Prepaid leases	78.383
Prepaid insurance policy	73.291.726
Prepaid expenses	<u>8.375.640.041</u>
Stationery, supplies and other materials	144.459.451
Library and works of art	2.057.394
Constructions in process	6.896.766.980
Amortized applications in development	4.126.871.093
Rights in social and union institutions	36.633.800
Other sundry assets	2.064.373.131
Sundry assets	<u>13.271.161.849</u>
Missing cash	66.961.143
Transactions to be settled	35.067.037.163
Other charge pending operations	179.426.466
Charge pending operations	<u>35.313.424.772</u>
Deposits in guarantee	215.960.150
Restricted assets	215.960.150
	<u>¢ 57.176.186.812</u>

(11) Demand obligations with the public

Demand obligations with the public as follows:

	<b>September 2020</b>
Checking accounts	¢ 1.688.550.462.761
Certification checks	122.074.368
Demand saving deposits	757.588.396.351
Matured term deposits	4.812.802.463
Other demand obligations with the public	5.396.042.772
	<u>¢ 2.456.469.778.715</u>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(12) Term and demand deposits with clients

Demand and term deposits per number of customers and accumulated amount are detailed as follows:

		<b>September 2020</b>
		<b>Demand</b>
Public	¢	2.451.073.735.944
Other obligations with the public		5.396.042.771
		<u>2.456.469.778.715</u>
State-owned entities		14.329.026.243
Other Banks		3.815.547.079
Other financial entities		19.618.003.126
		<u>37.762.576.448</u>
	¢	<u><b>2.494.232.355.163</b></u>
		<b>September 2020</b>
		<b>Term</b>
Public	¢	1.467.691.838.368
		<u>1.467.691.838.368</u>
State-owned entities		45.708.112.000
Other Banks		6.241.591.532
Other financial entities		360.911.763.529
		<u>412.861.467.061</u>
	¢	<u><b>1.880.553.305.429</b></u>

As of September 30, 2020, demand deposits from customers include court-ordered deposits for ¢227.360.329.283, which are restricted because of their nature.

As of September 30, 2020, the Bank has a total of 1.965.282 customers with demand deposits and has a total of 37.116 customers with term deposits.

(13) Repurchase and reverse repurchase agreements

The Bank purchases financial instruments under agreements whereby the Bank commits to sell the financial instruments at future dates at a predetermined price and return.

As of September 30, 2020, the Bank does not hold repurchase agreements.

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Notes to the unaudited separate financial statements

(14) Obligations with entities and obligations with the Central Bank of Costa Rica

Obligations with entities are as follows:

	<b>September 2020</b>
Checking accounts of local entities	¢ 28.153.257.310
Overdrafts on demand checking accounts in foreign financial entities	8.142.109.498
Obligations for checks to be cashed	1.467.209.640
Term deposits from local financial entities	71.435.744.732
Loans from foreign financial entities	143.729.629.420
Obligations for the right of use - leased assets	26.605.068.801
Obligations with resources from the Development Credit Fund (FCD)	171.091.024.108
Charges payable for obligations with financial and non-financial entities	891.037.315
	<b>¢ <u>451.515.080.824</u></b>

Maturities of term obligations with entities are from October 1, 2020 to July 31, 2021.

Annual interest rates for the new obligations with entities are as follows:

	<b>September 2020</b>
Colones	0,26 % a 3,750%
US dollars	0,009% a 3,2753%

As of September 30, 2020, there are no term obligations with foreign financial entities for the international issuance

(a) Maturities of loans payable

As of September 30, 2020, loans payable mature as follows:

	<b>BCCR</b>	<b>Local financial entities</b>	<b>Foreign financial entities</b>	<b>International organizations</b>	<b>Total</b>
Less than one year	¢ 0	0	53.084.500.000	42.467.600.000	95.552.100.000
Between one and two years	0	0	0	48.177.529.420	48.177.529.420
<b>Total</b>	<b>¢ 0</b>	<b>0</b>	<b>53.084.500.000</b>	<b>90.645.129.420</b>	<b>143.729.629.420</b>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

As of September 30, 2020, the Bank has following obligations from financial leases:

	<u>Quota</u>	<u>Interest</u>	<u>Maintenance</u>	<u>Amortization</u>
Less than one year	7.611.683.771	1.529.908.376	0	6.081.775.395
Between one and five years	27.084.710.690	6.561.417.284	0	20.523.293.406
	<u><b>34.696.394.461</b></u>	<u><b>8.091.325.660</b></u>	<u><b>0</b></u>	<u><b>26.605.068.801</b></u>

(15) Income tax

Pursuant to the Costa Rican Income Tax Law, the Bank is required to file income tax returns for the twelve months ending December 31 of each year.

As of September 30, 2020, the Bank's separate balances of income tax payable and expected income tax amount to ¢10.780.317.325 (see note 17); ¢8.302.269.932 are recorded as "Other assets".

The income tax expenses are as follows:

	<b>September 2020</b>
Current tax	¢ 13.237.309.078
Income tax adjustment for the previous period	(2.456.991.773)
	<u>10.780.317.325</u>
Decrease in deferred income tax	(114.319.595)
Income tax	¢ <u><u>10.665.997.730</u></u>
	<b>September 2020</b>
Realization of deferred income tax	¢ <u>114.319.595</u>

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

As of September 30, 2020, deferred tax assets and liabilities are attributed to the following:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Valuation of investments	¢ 1.671.478.002	(2.666.441.428)	(994.963.426)
Revaluation of buildings	0	(5.162.760.521)	(5.162.760.521)
<b>Total</b>	<u><b>¢ 1.671.478.002</b></u>	<u><b>(7.829.201.949)</b></u>	<u><b>(6.157.723.947)</b></u>

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BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

Movement of temporary differences is as follows:

As of September 30, 2020:

	<b>December 31, 2019</b>	<b>Income statement</b>	<b>Equity</b>	<b>September 30, 2020</b>
<b>Liabilities account</b>				
Valuation of investments	¢ (3.834.489.662)	0	1.168.048.234	(2.666.441.428)
Revaluation of buildings	(5.277.080.116)	114.319.595	0	(5.162.760.521)
<b>Assets account</b>				
Valuation of investments	<u>981.374.269</u>	<u>0</u>	<u>690.103.733</u>	<u>1.671.478.002</u>
<b>Total</b>	<b>¢ <u>(8.130.195.509)</u></b>	<b><u>114.319.595</u></b>	<b><u>1.858.151.967</u></b>	<b><u>(6.157.723.947)</u></b>

The tax receivable balance originated by an excess of advanced payments for the returns on investments of the Development Credit Fund which are exempt from the obligation and for income tax advances, are detailed as follows:

	<b>September 2020</b>
Income tax receivable	¢ <u>85.427.352</u>
Supported value added tax	<u>481.664.442</u>
	<b>¢ <u>567.091.794</u></b>

Total deferred tax and taxes receivable ¢2,238,569,796.

IFRIC-23 “Uncertainty over income tax treatments” introduces the concept of uncertain tax treatment, which starts after the tax administration begins a process of transferring charges, from which on the entity is already facing an uncertain tax treatment since the tax authority has already indicated that it does not accept the treatment provided, and therefore it is in dispute. In such case what proceeds is to reflect the uncertainty according to the method that better predict its resolution and by recording the corresponding provision. The provision made is detailed as follows:

	<b>September 2020</b>
Banco de Costa Rica	¢ <u>35.112.644.702</u>
	<b>¢ <u>35.112.644.702</u></b>

(Continue)

BANCO DE COSTA RICA.

Notes to the unaudited separate financial statements

(16) Provisions

Movement in provisions is as follows:

	<u>Severance benefits</u>	<u>Litigations</u>	<u>Others</u>	<u>Total</u>
<b>Balance at December 31, 2019</b>	¢ <b>8.995.447.418</b>	<b>16.284.350.888</b>	<b>35.072.116.918</b>	<b>60.351.915.224</b>
Increase in provision	0	3.357.853.448	40.527.784	3.398.381.232
Use of provision	(24.942.528)	(2.442.020.658)	0	(2.466.963.186)
Adjustment for foreign exchange	0	41.905.955	0	41.905.955
Reversal of provision	0	(2.433.121.488)	0	(2.433.121.488)
<b>Balance at September 30, 2020</b>	¢ <b>8.970.504.890</b>	<b>14.808.968.145</b>	<b>35.112.644.702</b>	<b>58.892.117.737</b>

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Notes to the unaudited separate financial statements

As of September 30, 2020, the Bank is a defendant in litigation, for which the following provisions have been established:

- Ordinary suits filed against the Bank estimated at ¢23.295.854.796 and US\$68.860.178 for which the Bank has provisioned ¢1.750.317.022 and US\$1.361.000, respectively.
- The criminal lawsuits against the Bank have been estimated in ¢386.131.552 and US\$10.077, for which the Bank has recorded a provision in the amount of ¢89.000.000.
- Labor suits by nature are difficult to estimate. However, they have been estimated at ¢5.137.726.379 and US\$825.001, for which the Bank has provisioned ¢1.897.574.026.84, corresponding to cases where a provisional judgment has been handed down.
- There are administrative proceedings at different stages in the amount ¢5.379.516.83 and US\$36.257 for which the Bank has provisioned ¢386.000 and US\$34.057, respectively.
- In compliance with Law 9605 “Merger by absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica” the amount of ¢801.701.887 was transferred for pending proceedings.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(17) Other miscellaneous accounts payable

Other miscellaneous accounts payable are detailed as follows:

	<b>September 2020</b>
Fees payable	73.864.325
Current income tax (see note 15)	10.780.317.325
UD Income Tax	329.478.571
Value added tax payable	154.400.843
Employer contributions	1.372.112.956
Withholdings by legal order	1.056.784.124
Tax withholdings	4.280.458.532
Employer withholdings	884.904.053
Other third-party withholdings	18.677.806.049
Compensations and salaries payable	5.533.668.670
Distributions payable on results of the period (see note 30)	10.468.364.108
Accrued vacation payable	5.686.025.081
Accrued statutory Christmas bonus payable	4.070.672.414
Contributions to Superintendencies	37.258.203
Commissions payable for insurance placement	64.680.308
Commissions payable related parties	1.397.681.968
Sundry creditors	23.145.675.090
	<b><u>88.014.152.620</u></b>

Sundry creditors record accounts payable and commissions not specified in the above concepts that mainly correspond to transactions by supplier invoices, constitution of companies, placement of policies, withholdings payable, transactions with checking and savings accounts.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(18) Equity

a) Capital

The Bank's capital is comprised as follows:

	<b>September 2020</b>
Capital under Law 1644	¢ 30.000.000
Bank capitalization bonds	1.288.059.486
Capital increase under Law 7107	118.737.742.219
Capital increase under Law 8703	27.619.000.002
Capital increase under Law 9605	18.907.432.694
Increase from revaluation of assets	14.130.125.230
Other	697.630.970
	¢ <b><u>181.409.990.601</u></b>

On December 23, 2008, the Executive Branch of the Costa Rican Government authorized a capital contribution funded under Law No. 8703 "Amendment to the Law on the Ordinary and Extraordinary Budget of the Republic for Tax Year 2008 (Law No. 8627)". Such law grants funds to capitalize three State-owned banks, including the Bank, in order to stimulate productive sectors, particularly small and medium-sized enterprises. For such purposes, the Bank handed over four securities for a total of US\$50.000.000 equivalent to ¢27.619.000.002.

As of September 30, 2020, the amount for the constitution of the Development Financing Fund's equity is ¢33.309.728.460. In compliance with Law 9605 "Merger by Absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica." The amount of ¢2.627.265.346 of the equity was transferred.

b) Surplus from revaluation of property and equipment

Corresponding to the increase in fair value of property owned by the Bank, as of September 30, 2020, revaluation surplus amounts to ¢37.774.830.067.

c) Adjustments for revaluation of available-for-sale investments

They include variations in the fair value of available-for-sale investments.

As of September 30, 2020, the balance of the adjustment for valuation of available-for-sale investments corresponds to unrealized net losses in the amount of ¢11.391.031.549.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

d) Adjustment for valuations of investments in other companies

This item mainly corresponds to foreign exchange differences arising from conversion of BICSA's financial statements and the unrealized gain or loss on valuation of investments and other changes in subsidiaries.

As of September 30, 2020, changes in equity include foreign exchange differences corresponding to investments in other companies in the amount of ¢10.047.961.706.

Regulatory Capital

As of September 30, the primary and secondary capital of the Bank is detailed as follows:

	<b>September 2020</b>
<u>Primary Capital</u>	
Ordinary paid in capital	¢ 181.409.990.601
Legal reserve	283.820.516.011
	<u>465.230.506.612</u>
<u>Secondary Capital</u>	
Adjustment for valuation of property	28.331.122.550
Adjustment for valuation of restricted financial instruments	(2.458.552)
Adjustment for valuation of shares in other companies	10.047.961.706
Retained earnings from previous periods	13.464.953.148
Results of the period	23.407.763.349
Development Financing Fund	33.309.728.460
	<u>108.559.070.661</u>
<u>Deductions</u>	
Participation in other companies	<u>(118.137.052.695)</u>
<b>Total regulatory capital</b>	<b>¢ <u>455.652.524.578</u></b>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(19) Commitments and contingencies

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.

Off-balance financial instruments with risk are as follows:

	<b>September 2020</b>
Guarantees:	
Performance bonds	ϕ 114.167.883.055
Bid bonds	2.594.532.765
Letters of credit issued, not negotiated	3.284.007.569
Credit lines to be used automatically	116.805.011.335
Other contingencies	73.861.253.296
Credits pending disbursement	1.500.970.196
	<b>ϕ 312.213.658.216</b>

Off-balance financial instruments with risk by type of deposit are as follows:

	<b>September 2020</b>
With prior deposit	ϕ 7.744.147.283
Without prior deposit	230.608.257.637
Pending litigation and claims	73.861.253.296
<b>Total deposits</b>	<b>ϕ 312.213.658.216</b>

These commitments and contingent liabilities expose the Bank to credit risk since commissions and losses are recognized in the financial statements until the obligations are fulfilled or expire.

As of September 30, 2020, letters of credit are backed up by 100% of the stand-by balance or by lines of credit.

As of September 30, 2020, floating guarantees in custody are for ϕ247.387.903.468.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Other contingencies:

As of September 30, 2020, the Bank's Legal Division reported the following contingencies and commitments:

- Administrative suits against the Bank estimated at ₡27.066.946.687.43 and US\$67.832.921.66. In addition, other contentious processes are filed for preliminary injunction with no estimate.
- Ordinary labor suits estimated at ₡3.428.001.012.35 and US\$825.001.
- Criminal proceedings in which the Bank is a third-party defendant estimated at ₡1.700.475.429 and US\$10.077.
- Administrative proceedings against the Bank have been estimated in the amount of ₡4.993.517 y US\$2.200.

(20) Trusts

The Bank provides trust services, whereby it manages assets at the direction of the customer. The Bank receives a fee for providing those services. The underlying assets and liabilities are not recognized in the Bank's separate financial statements. The Bank is not exposed to any credit risk and it does not guarantee these assets or liabilities.

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

- Management and investment trusts
- Management trusts with a testamentary clause
- Guarantee trusts
- Housing trusts
- Management and investment public trusts.

The assets in which capital trust is invested are detailed as follows:

	<b>September 2020</b>
Cash and due from banks	₡ 84.726.550.527
Investment	65.646.894.280
Loan portfolio	12.463.025.717
Allowance for loan losses	(9.483.249.800)
Foreclosed assets	38.062.970.497
Investment in other companies	30.000.012.240
Other receivables	77.425.329.763
Property and equipment	303.888.982.643
Other assets	260.983.483.294
	<b>₡ 863.713.999.161</b>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(21) Other debit memoranda accounts

Other debit memoranda accounts are as follows:

	<b>September 2020</b>
Guarantees received and held in custody	¢ 4.793.966.299
Guarantees received and held by third parties	4.144.715.947
Unused authorized lines of credit	297.927.032.739
Write-offs	200.139.498.268
Suspense interest receivable	20.996.506.904
Other memoranda accounts	13.384.169.691.847
Assets and securities held in custody for third parties	77.169.273.540
Trading securities received as Guarantee (Guarantee Trust)	38.841.184.840
Own trading securities	781.357.740.496
Cash and accounts receivable custodial activities	107.715.181.312
Third party trading securities pledged as guarantee (Guarantee Trust)	76.692.201.765
Third parties trading securities	5.330.807.924.915
	¢ <u><u>20.324.754.918.872</u></u>

(22) Finance income on financial instruments

Finance income on financial instruments is as follows:

	<b>September 2020</b>	<b>Quarter From July 1 to September 30 2020</b>
Interest for investment in held-for-trading financial instruments	¢ 508.296.635	43.637.929
Interest for investment in available-for-sale financial instruments	38.909.297.765	14.416.446.752
Interest for investments in held-to-maturity financial instruments	444.588.529	296.434.456
Interest for investments in expired and restricted financial instruments	340.084.399	177.064.516
	¢ <u><u>40.202.267.328</u></u>	<u><u>14.933.583.653</u></u>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(23) Finance income on credit portfolio

Finance income on credit portfolio is as follows:

	<b>September</b>	<b>Quarter</b>
	<b>2020</b>	<b>From July 1 to</b>
	<b>2020</b>	<b>September 30</b>
	<b>2020</b>	<b>2020</b>
<b>Current loans</b>		
Loans - Personal	85.160.664.447	27.508.779.491
Loans - Development Financing Fund	1.782.715.398	530.586.448
Loans - Business	5.795.669.363	1.798.461.658
Loans – Corporate	64.950.682.928	20.241.267.482
Loans – Public Sector	6.453.769.849	2.116.365.820
Loans – Financial Sector	10.429.741.972	3.126.615.129
	<u>174.573.243.957</u>	<u>55.322.076.028</u>
<b>Past due loans and loans in legal collection</b>		
Past due loans – Personal	697.094.543	220.835.092
Past due loans – Development Financing Fund	41.655.522	14.082.336
Past due loans – Business	1.347.433.976	426.766.949
Past due loans – Corporate	1.284.204.606	352.155.741
Loans – Financial Sector	2.625.233.660	324.523.796
	<u>5.995.622.307</u>	<u>1.338.363.914</u>
Amortization of the net commission of the direct incremental cost associated to loans	2.809.467.349	1.050.446.148
Interest for accounts receivable associated to credit portfolio and other financial interest, other concepts not included in the previous subaccounts and analytical accounts	885.326.731	277.955.191
	<u><u>184.263.660.344</u></u>	<u><u>57.988.841.281</u></u>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(24) Expenses for obligations with the public

Finance expense for obligations with the public is as follows:

	<b>September 2020</b>	<b>Quarter September 30 2020</b>
Demand deposits	¢ 28.451.479.012	10.704.738.824
Term deposits	67.786.247.612	19.448.065.993
	¢ <b>96.237.726.624</b>	<b>30.152.804.817</b>

(25) Expenses for allowance for impairment of investments in financial instruments and allowance for loan losses

Expenses for allowance for impairment of investments in financial instruments and allowance for loan losses are as follows:

	<b>September 2020</b>	<b>Quarter September 30 2020</b>
Allowance for loan losses (see note 6-e)	¢ 18.454.944.083	309.931.055
Allowance for other doubtful receivables	3.287.903.519	1.442.624.787
Allowance for stand-by credit losses	30.724.437	0
Expenses generic estimation and against cyclic for loan (see note 6-e)	251.859.151	31.229.901
Expenses generic estimation and against cyclic for contingent credit portfolio	81	(1)
Expenses for allowance for impairment of securities at fair value through other comprehensive income	4.626.374.616	1.158.715.644
Expense for allowance of impairment of held-to-maturity investments	22.205.007	2.783.694
	¢ <b>26.674.010.894</b>	<b>2.945.285.080</b>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(26) Income from recovery of financial assets and decreases in allowances

Income from recovery of financial assets and decreases in allowances is as follows:

	<b>September</b>	<b>Quarter from</b>
	<b>2020</b>	<b>July 1 to</b>
		<b>September 30</b>
	<b>2020</b>	<b>2020</b>
Recovery of loan write-offs	¢ 14.464.502.537	2.864.195.588
Decrease in allowance for loan losses (see note 6-e)	5.212.361.745	1.158.779.769
Decrease in allowance for other doubtful receivables	1.970.683.190	1.101.412.950
Decrease in allowance for stand-by credit losses	44.335.220	0
Decrease in generic estimation and against cyclic for loan (see note 6-e)	4.381.670.593	13.563.717
Decrease in generic estimation and against cyclic for contingent loans	42.067.583	11.051
Decrease in allowance for uncollectibility of investments securities	3.673.549.539	3.104.407.293
	¢ <b>29.789.170.407</b>	<b>8.242.370.368</b>

(27) Income from service fees and commissions

Income from service fees and commissions is as follows:

	<b>September</b>	<b>September</b>
	<b>2020</b>	<b>2020</b>
Drafts and transfers	¢ 1.425.263.130	474.145.971
Foreign trade	416.157.814	134.913.908
Certified checks	1.700.624	662.260
Trust management	2.927.825.104	960.179.664
Custodial services	254.712.172	71.562.903
Banking mandates	332.599.902	103.326.950
Credit cards	27.775.913.387	8.382.248.073
Authorized custodial services for securities	524.164.057	180.644.913
Commissions for transactions with related parties	6.848.760	1.218.822
Other commissions	21.423.638.003	6.801.497.913
	¢ <b>55.088.822.953</b>	<b>17.110.401.377</b>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(28) Income from interest in other companies

Income from interest in other companies is detailed as follows:

	<u>2020</u>	<u>2020</u>
<u>Local entities</u>		
Interest in BCR Valores, S.A.- Puesto de Bolsa	¢ 2.680.427.532	892.743.325
Interest in BCR Sociedad Administradora de Fondos de Inversion, S.A.	2.137.359.344	830.932.772
Interest in BCR Pensión, Operadora de Planes de Pensiones Complementarias, S.A.	628.132.482	251.299.264
Interest in BCR Corredora de Seguros, S.A.	2.277.246.001	722.757.564
Interest in BANPROCESA-TI, S.A.	102.388.454	102.388.454
Interest in Depósito Agrícola de Cartago S.A.	21.616.086	9.746.194
Interest in Bancrédito Agencia de Seguros S.A.	1.818.043	0
<u>Entities abroad:</u>		
Banco Internacional de Costa Rica. S.A. and Subsidiaries	926.327.206	130.721.649
	¢ <u><u>8.775.315.148</u></u>	<u><u>2.940.589.222</u></u>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(29) Administrative expenses

Administrative expenses are as follows:

	<b>September</b>	<b>Quarter</b>
	<b>2020</b>	<b>From July 1 to</b>
	<b>2020</b>	<b>September 30</b>
	<b>2020</b>	<b>2020</b>
Salaries and bonuses, permanent staff	¢ 38.506.265.843	13.049.113.687
Salaries and bonuses, contractors	1.552.028.924	509.385.501
Compensation for directors and statutory examiners	66.694.476	18.388.577
Overtime	519.855.498	136.905.238
Per diem	201.930.937	55.917.988
Statutory Christmas bonus	3.421.503.086	1.152.258.292
Vacation	3.735.921.845	1.355.190.983
Other compensation	479.711.362	131.519.716
Severance payments	1.910.386.053	644.429.238
Employer social security taxes	13.510.091.589	4.549.050.558
Refreshments	39.906.806	2.252.573
Uniforms	11.324.249	0
Training	126.953.202	37.602.044
Employee insurance	113.897.249	36.786.365
Assets for personal use	678.440	66.219
“Back-to-school” bonus	5.380.495.098	1.800.878.447
Compulsory retirement savings account	1.234.662.247	415.686.023
Other personnel expenses	355.060.809	110.231.955
Outsourcing	10.503.258.035	3.533.729.070
Transportation and communications	3.489.365.774	1.016.226.381
Property insurance	126.366.109	124.342.254
Property maintenance and repairs	3.015.161.272	1.068.747.516
Public utilities	2.037.763.822	629.425.071
Leasing of property	2.265.349.923	803.922.831
Leasing of furniture and equipment	513.920.461	163.105.883
Depreciation of property and equipment	6.676.768.759	2.247.240.839
Amortization of leasehold property	297.902.107	103.419.167
Other infrastructure, expenses	3.517.913.541	941.586.903
Overhead	16.200.730.194	6.011.974.222
	¢ <b><u>119.811.867.710</u></b>	<b><u>40,649,383,541</u></b>

(Continue)



BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(30) Statutory allocations of earnings

Statutory allocations of earnings are as follows:

	<b>September</b>	<b>Quarter from July 1 to September 30</b>
	<b>2020</b>	<b>2020</b>
Allocation for CONAPE	¢ 1.920.536.648	1.041.454.397
Allocation or Instituto Nacional de Fomento Cooperativo	1.633.895.529	1.010.917.611
Allocation for the National Emergencies Commission	1.152.321.989	624.872.638
Allocation for Régimen de Invalidez, Vejez y Muerte	5.761.609.942	3.124.363.188
	<b>¢ 10.468.364.108</b>	<b>5.801.607.834</b>

As of September 30, 2020, there are not decreases in the legal allocations of the period's profits.

(31) Components of other comprehensive income

The components of other comprehensive income are as follows:

	<b>September 2020</b>		
	<b>Amount before income tax</b>	<b>Profit (expense)</b>	<b>Net taxes</b>
Adjustment for valuation of available-for sale investments	¢ 2.137.489.123	1.858.151.967	3.995.641.090
Exchange differences for conversion of financial statements, foreign entities	4.715.414.685	0	4.715.414.685
Changes in equity from foreign subsidiaries	(348.549.357)	0	(348.549.357)
Change in equity of subsidiaries from unrealized profit	(389.205.447)	0	(389.205.447)
	<b>¢ 6.115.149.004</b>	<b>1.858.151.967</b>	<b>7.973.300.971</b>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(32) Operating leases

The Bank as tenant

Non-cancellable operating leases are payable as follows:

		<b>September 2020</b>
Less than one year	¢	475.480.200
Between one and five years		237.740.100
	¢	<b>713.220.300</b>

(33) Fair value

Fair values of financial instruments are as follows:

		<b>September 2020</b>	
		<b>Carrying amount</b>	<b>Fair value</b>
Cash and due from banks	¢	701.863.097.005	701.863.097.006
Investment		1.252.131.433.769	1.241.492.650.245
Loan portfolio		2.923.016.448.299	2.781.544.211.067
		<b>4.877.010.979.073</b>	<b>4.724.899.958.318</b>
Demand deposits		2.472.067.975.692	2.472.067.975.692
Term deposits		1.467.691.838.368	1.449.673.377.869
Financial obligations		451.515.080.825	455.201.447.757
	¢	<b>4.391.274.894.885</b>	<b>4.376.942.801.318</b>

Where practicable, the following assumptions were used by management to estimate the fair value of each class of financial instrument both on and off the balance sheet:

- (a) Cash and cash equivalents, accrued interest receivable, other receivables, demand deposits and customer savings deposits, accrued interest payable, and other liabilities.

The carrying amounts approximate fair value because of the short maturity of these instruments.

- (b) Investments in financial instruments

The fair value of available-for-sale financial instruments is based on quoted market prices or prices quoted by brokers.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(c) Securities sold under repurchase agreements

The carrying amount of funds owed under repurchase agreements maturing in one year or less approximates their fair value because of the short maturity of these instruments.

(d) Loan portfolio

Management determined the fair value of the loan portfolio by the discounted cash flow method.

(e) Deposits and loans payable

Management determined the fair value of deposits and loans payable by the discounted cash flow method.

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 date. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Estimates could vary significantly if changes are made to those assumptions.

(34) Risk Management

Comprehensive Risk Management

Sophistication and uncertainty of financial markets involve managing risks that may impair the value of entities and of third-party resources it manages. Given this reality, the Bank implemented a System of Comprehensive Risk management (hereinafter Sigir or Sytem), enabling it to achieve a proper balance between the expected benefits of the business strategy and the acceptance of a certain level of risk, through an effective risk-based management.

Corporate governance of the risk management area

Boards of Directors, committees, and senior managers of member institutions of the Financial Conglomerate strengthen and ensure the above mentioned Sigir, aware of its contribution to the improvement of institutional processes, and hence to the achievement of objectives and goals.

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## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

Corporate risk management is led by the Risk Management and Control Area, Regulations with dependence on the General Board of Directors, and which has various administrative units responsible for the specific and comprehensive management of relevant risk to which the entity is exposed while in the subsidiaries there are risk managing areas responsible for this work.

#### Objective of the Comprehensive Risk Management System

The System aims to generate information that will support the decision making to locate the Financial Conglomerate at a risk level consistent with its profile and risk appetite as well as its business flows, complexity, operations volume and economic environment, and thus lead to the achievement of institutional objectives and goals.

#### General Risk Principles and Policies

The Conglomerate has policies, strategies, and other corporate regulations for an effective comprehensive risk management, as follows:

- A robust regulatory framework to provide legal, technical, and administrative certainty for the functioning, evaluation and improvement of the Sigir.
- Strategies that seek to strengthen the system's maturity level.
- The risk management culture is promoted at all levels of the organization, thereby raising awareness of the importance of effective risk-based management.
- Methodologies and measurement models are available for the valuation of the different types of risk, which are periodically subjected to retrospective and stress tests, to adjust the variables and factors that influence the exposure to risks.
- Updated tools and systems are available to meet the needs of managing each type of risk.
- Risk and contingency management plans are in place to deal with situations that prevent the fulfillment of the stated objectives, as well as for materialized events whose consequences may generate negative impacts on the entities.

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Classification of significant risks

The relevant risks to the Bank are classified as follows:

Risk classification of Banco de Costa Rica			
Types of relevant risk	Financial	Crédit	Loan portfolio
			Investment portfolio (counterparty)
		Market	Exchange rates
			Interest rates
			Price
			Liquidity
	Non- financial		Strategic
			Operating
			Legal
			Technological
			Reputational
			Environmental and social
			Money laundering and terrorism financing
	Other		Conglomerate

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Types of risks related to the strategic plan

The following table details the types of risk associated with the strategic objectives of the BCR Financial Conglomerate.

Related strategic objective	Process	Type of risk	Indicator (KRI's)
1. Manage the BCR Financial Conglomerate	1. Organizational strategy	Strategic	Equity Sufficiency Index
2. Consolidate the Bank's commercial approach, with an adequate balance between profitability and risk.			
1. Manage the BCR Financial Conglomerate	1. Financial treasury operations		
1. Manage the BCR Financial Conglomerate	1. Security management	Operative	Expected loss due to operational risk (last 12 months)
	2. Management of processes and regulations		
3. Transform BCR in a digital bank	3. IT Security		Uptime
1. Manage the BCR Financial Conglomerate	1. Loan granting	Credit	Percentage of the loan portfolio with arrears of 1 to 30 days
2. Consolidate the Bank's commercial approach, with an adequate balance between profitability and risk.	2. Monitoring of loans		Percentage of the loan portfolio with arrears of more than 90 days
	3. Loans recovery		No High-Risk Generator (% adjusted capital) No Low-Risk Generator (% adjusted capital) Corporate Banking customer diversification
1. Manage the BCR Financial Conglomerate	1. Financial treasury operations	Price	VaR of the investment portfolio 03-06
		Exchange rate	PPME sensibility to movements in the ER
		Interest rate	Elasticity of the financial margin to movements in interest rates
1. Manage the BCR Financial Conglomerate	2. Investment services	Liquidity	Credit Ratio/ Deposits in colones Credit Ratio / Deposits in US dollars

Risk profile and limit structure

The members of the Conglomerate define a risk profile for each entity, which is approved by the corresponding Board of Directors, and according to which, parameters of acceptability, appetite, tolerance limits and risk indicators defining the exposure levels to assume, are established, thereby generating alerts to deviations from normal behavior, enabling timely decision making.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Process of comprehensive risk management

The process in risk assessments includes identification, analysis, evaluation, management, review, documentation, and risk communication.

Types of risk assessments

The process in risk assessments includes qualitative and quantitative assessments. The first correspond to specific analysis of the objectives of activities and substantial processes of the Conglomerate. The second refers to global analysis with quantitative risk measurements using mathematical and statistical methods and models.

In addition, during the period under study, the management generated reports about risk on new services and products or modification to existing ones, which are issued prior to its release to the market or the contracting of services.

Risk control framework

Risk Control arises as result of the operation of the Internal Control System established in each of the BCR Financial Conglomerate members, incorporating flow of processes and internal control activities to minimize risk exposure.

The established risk assessments generate various alerts, recommendations, and risk management plans, contributing to its overall and specific mitigation. In addition, there are contingency plans for unexpected events that may affect compliance with the risk tolerance limits, supporting the sustainability, solvency and value of the conglomerate's members.

In addition, there is a continuous monitoring of tolerance limits and risk indicators, to reflect the degree of exposure in which each of its relevant risk types is found. Contingency plans are available to deal with unexpected events that affect compliance.

Mitigation coverage

In accordance with the regulations, estimates and provisions are maintained. Implemented risk assessment models seek to establish additional capital requirements to cover non-expected losses. Likewise, BCR net worth equity indicator is evaluated to analyze its ability to respond to different types of risk, which, during the period under study, was higher than the 10% limit established by the General Superintendence of Financial Institutions.

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## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

#### Evaluation of the effectiveness and maturity of the System

Risk managing areas apply critical judgment on the effectiveness and maturity of the Sigir using self-assessment tools for continuous improvement. Annually, a Model of Corporate Maturity is applied to evaluate the progress in management by type of risk. The results of this assessment are used to define strategies and work plans.

#### Information generated by the Comprehensive Risk Management System

During the period under analysis, the system generated timely and periodic reports for the Boards of Directors, Committees and other risk-taking areas of the Conglomerate as a result of the Comprehensive Risk Management, or by the occurrence of significant events that should be known of for suitable decision making based on risk exposure and risk based business management.

#### (a) Credit risk management

##### Definition

The credit risk is the possibility of economic losses due to non-compliance with the conditions agreed upon by the debtor.

Management of this risk contributes to the strength of BCR's equity in the long term by providing both tools and information to improve decision making, minimize losses and maintain risk exposure of the loan portfolio within established parameters.

The General Board of Directors of the BCR has defined management strategies to control credit risk from portfolios to individual debtors, using tools and methodologies framed within the existing regulations developed internally.

##### Management methodology

In general, models and systems measuring credit risk that accurately reflect the value of the positions and their sensitivity to various risk factors are applied in corporative information from reliable sources. Further, the Regulator issued adjustments to prudential regulations to enable the actions that financial entities can take to help clients: Executive Decree No. 42227-MP-S, Guideline 075-H, SUGEF 1-05, Transitory XVI and Transitory XVII, La Gaceta 105, Guideline 083-H.

The statistical support is complemented with expert criteria to analyze the borrower's ability to pay, as well a stress analysis on exposures to macroeconomic variables that are related to microeconomic and Bank's internal variables.

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## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

Specifically, for the quantitative analysis of the loan portfolio, there is a model to quantify the average of expected loss, value at Risk (VaR), and economic capital, which is aligned with the standards of Basel II.

In addition, projections are made on the evolution of the portfolio, as well as analysis of economic activities, which feeds the risk models. The foregoing allows for a prospective view of the impacts on the loan portfolio.

Moreover, the risk inherent to the activities and products of the Bank is identified and analyzed, as well as its feedback to the organization through the Executive Corporate Committee. Finally, there are limits to exposure to credit risk, to control exposure levels.

#### Exposure and risk management

During the first months of 2020, the loan portfolio had been trending towards an acceptable risk level for all its indicators, however, due to the Covid-19 pandemic and its repercussions on the economy, many of the Bank's clients had to suspend the production cycle or they have stopped receiving their income in the case of individuals. In this situation, the Bank is in a second phase of granting grace periods to debtors affected by the pandemic, as well as renewal of the first phase.

As of September 2020, the percentage of arrears greater than 90 days was 3,34% (3,94% June 2020). The latter indicator is 0,66 percentage points below the regulatory limit to be in the normal range, with retail banking activities showing the highest delinquency.

The dollar portfolio accounts for 32.39% (31.56% June 2020, respectively) of the total portfolio. It is important to mention, the loan portfolio has been managed strategically to attract customers with an acceptable risk profile. In addition, regular monitoring of the loans in foreign currency is given, and the portfolio of clients not generating income in foreign currency.

The activities with greater relative importance are housing, services and commerce, as shown in note 6.a of the financial statements (Loan Portfolio by Sector), limits on exposition for the loan portfolio are defined, to achieve a loan structure in the medium and long term that is consistent with the risk appetite established by the Senior Management.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

In addition, appropriate and timely communication mechanisms on exposure of the Bank to credit risk are implemented at all levels of the organizational structure, thus allowing a prospective view of the impact on the credit estimates and equity. The reports consider both the exposure resulting from position taking and possible deviations arising regarding the limits and defined tolerance levels. Because of the pandemic, information and monitoring mechanisms were sought, in some cases daily, to closely monitor the effects of the crisis on the Bank's activities. Impact analyzes are carried out on economic activities and their effects on the loan portfolio.

Also, the commercial area is kept informed on the inherent risks of the economic activities associated with credit underwriting, through specific studies, as well as new credit instruments the Bank is planning to offer

With respect to the counterparty risk of the investment portfolio, compliance with the internal investment limits per issuer is monitored weekly. In addition, as of January 2020, the calculation of the expected loss for the investment portfolio under IFRS 9 starts. The foregoing allows for a buffer of resources to mitigate eventual defaults that may occur in the portfolio, thus maintaining a conservative profile.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

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

		Direct loan portfolio	Contingent loan portfolio September
	Note	2020	2020
Principal	6a ¢	2.906.650.140.420	230.608.257.637
Interest		33.074.083.450	0
		<u>2.939.724.223.870</u>	<u>230.608.257.637</u>
Allowance for loan losses		(95.153.880.035)	(306.466.301)
Carrying amount	¢	<u>2.844.570.343.835</u>	<u>230.301.791.336</u>
 Loan Portfolio			
Total Balance:			
A1	¢	2.215.616.187.009	214.742.118.729
A2		42.756.672.108	799.684.695
B1		331.276.270.920	4.710.575.157
B2		24.854.609.929	206.623.625
C1		42.923.172.582	3.516.263.694
C2		18.959.748.261	55.621.092
D		49.360.819.812	4.061.477.541
E		167.655.432.827	2.508.917.879
1		44.631.210.295	6.975.225
2		569.130.848	0
3		300.236.992	0
4		407.895.801	0
5		31.695.209	0
6		381.141.277	0
		<u>2.939.724.223.870</u>	<u>230.608.257.637</u>
Allowance for loan losses		(83.255.351.892)	(270.004.318)
Carrying amount, net		<u>2.856.468.871.978</u>	<u>230.338.253.319</u>
Carrying amount		2.939.724.223.870	230.608.257.637
Allowance for loan losses		(83.255.351.892)	(270.004.318)
(Excess) inadequacy of allowance over structural estimate		(11.898.528.143)	(36.461.983)
Carrying amount, net	6a ¢	<u>2.844.570.343.835</u>	<u>230.301.791.336</u>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The assessed loan portfolio with allowance is detailed as follows:

As of September 30, 2020:

Loan portfolio	Direct Loan Portfolio				Contingent Loan Portfolio	
	Principal	Covered Balance	Overdraft	Allowance	Principal	Allowance
Direct generic allowance						
A1	2.215.616.187.009	1.557.007.658.102	658.608.528.908	11.078.080.983	214.742.118.730	140.870.544
A2	42.756.672.108	35.397.895.549	7.358.776.559	213.783.361	799.684.695	0
	<u>2.258.372.859.117</u>	<u>1.592.405.553.651</u>	<u>665.967.305.467</u>	<u>11.291.864.344</u>	<u>215.541.803.425</u>	<u>140.870.544</u>
Direct specific allowance						
B1	331.276.270.920	252.229.851.077	79.046.419.843	5.213.470.249	4.710.575.156	14.317.246
B2	24.854.609.929	23.088.391.631	1.766.218.299	292.063.789	206.623.625	1.014.091
C1	42.931.172.582	40.337.014.420	2.586.158.162	848.224.615	3.516.263.694	118
C2	18.959.748.261	16.784.549.157	2.175.199.104	1.171.522.298	55.621.092	0
D	49.360.819.812	39.352.452.245	10.008.367.567	7.483.178.549	4.061.477.541	113.757.058
E	167.655.432.827	105.365.450.372	62.289.982.456	56.800.937.241	2.508.917.879	43.426
1	44.631.210.295	18.280.406.032	26.350.804.264	111.998.371	6.975.225	1.835
2	569.130.848	536.257.075	32.873.773	4.324.974	0	0
3	300.236.992	294.031.838	6.205.154	3.021.448	0	0
4	407.895.801	406.892.029	1.003.772	2.536.346	0	0
5	31.695.209	31.695.209	0	158.476	0	0
6	381.141.277	350.844.306	30.296.971	32.051.192	0	0
	<u>681.359.364.753</u>	<u>497.057.835.391</u>	<u>184.293.529.365</u>	<u>71.963.487.548</u>	<u>15.066.454.212</u>	<u>129.133.774</u>
	<u>2.939.732.223.870</u>	<u>2.089.463.389.042</u>	<u>850.260.834.832</u>	<u>83.255.351.892</u>	<u>230.608.257.637</u>	<u>270.004.318</u>
Loan Portfolio						
Aging loan portfolio						
Direct generic allowance						
Up to date	2.182.184.892.048	1.528.852.406.487	653.332.485.561	11.020.665.290	215.541.803.425	140.872.379
Equal or less than 30 days	74.764.297.981	63.194.726.530	11.569.571.451	376.079.079	0	0
Equal or less than 60 days	381.953.277	258.408.016	123.545.260	1.909.766	0	0
More than 180 days	1.041.715.811	100.012.618	941.703.193	5.208.579	0	0
	<u>2.258.372.859.117</u>	<u>1.592.405.553.651</u>	<u>665.967.305.465</u>	<u>11.403.862.714</u>	<u>215.541.803.425</u>	<u>140.872.379</u>
Direct specific allowance						
Up to date	462.463.508.911	339.319.573.449	123.143.935.462	24.911.796.877	15.066.454.212	129.131.939
Equal or less than 30 days	41.771.226.982	37.005.286.560	4.765.940.420	2.124.817.961	0	0
Equal or less than 60 days	52.542.789.767	40.714.469.900	11.828.319.867	2.191.103.985	0	0
Equal or less than 90 days	19.516.373.281	15.206.324.394	4.310.048.887	2.943.830.657	0	0
Equal or less than 180 days	25.002.516.789	16.869.574.018	8.132.942.772	7.787.115.027	0	0
More than 180 days	80.054.949.024	47.942.607.070	32.112.341.954	31.892.824.671	0	0
	<u>681.351.364.754</u>	<u>497.057.835.391</u>	<u>184.293.529.362</u>	<u>71.851.489.178</u>	<u>15.066.454.212</u>	<u>129.131.939</u>
	<u>2.939.724.223.871</u>	<u>2.089.463.389.042</u>	<u>850.260.834.827</u>	<u>83.255.351.892</u>	<u>230.608.257.637</u>	<u>270.004.318</u>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Set out below is an analysis of the gross and net (of allowance for loans losses) amounts of individually assessed loans with allowance by risk category according to applicable regulations:

At September 30, 2020	Loans receivable from customer	
	Gross	Net
Risk Category:		
A1	¢ 2.215.616.187.009	2.204.538.106.028
A2	42.756.672.108	42.542.888.747
B1	331.276.270.920	326.062.800.670
B2	24.854.609.929	24.562.546.140
C1	42.923.172.582	42.074.947.967
C2	18.959.748.261	17.788.225.963
D	49.360.819.812	41.877.641.263
E	167.655.432.827	110.854.495.587
1	44.631.210.295	44.519.211.924
2	569.130.848	564.805.874
3	300.236.992	297.215.544
4	407.895.801	405.359.455
5	31.695.209	31.536.733
6	381.141.277	349.090.084
	¢ 2.939.724.223.870	2.856.468.871.979

In compliance with SUGEF Directive 1-05, as of September 30, 2020, the Bank must maintain a minimum allowance in the amount of ¢83.525.356.210 of which ¢83.255.351.892 is allocated to the valuation of the direct loan portfolio and ¢270.004.318 to the contingent loan portfolio. Additionally, the countercyclical allowance is of ¢4.779.400.343.

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The concentration of the portfolio of direct loans and contingent loans by sector (economic activity) is as follows:

	<b>September 2020</b>	
	<b>Loan Portfolio</b>	<b>Contingent Accounts</b>
Trade	¢ 13.086.843.303	15.959.571.213
Manufacturing	246.429.096.808	7.754.821
Construction, purchase and repair of real estate	1.044.044.202.694	64.860.371
Agriculture, livestock, hunting and related services	151.155.278.905	7.000.000
Consumer	297.289.999.668	116.766.067.786
Education	3.051.917.116	0
Transportation	38.401.700.006	82.101.835
Financial and stock Exchange	4.136.656.952	0
Telecommunications and public utilities	55.039.038.547	0
Services	947.778.973.346	103.791.513.196
Hospitality	100.920.715.017	0
Mining and quarrying	40.481.134	0
Real estate, business and leasing activities	3.799.076.434	0
Public Administration	0	1.654.232.354
Other activities from the non-financial private sector	1.476.160.490	19.303.344
	<u>2.906.650.140.420</u>	<u>238.352.404.920</u>
Other contingencies	0	73.861.253.296
	<u>¢ 2.906.650.140.420</u>	<u>312.213.658.216</u>

As of September 30, 2020, the Bank's risk associated to the loan portfolio is concentrated in Costa Rica.

As of June 30, 2020, the Bank has banking mandates for ¢1.376.367.

The total Bank's foreclosed assets is detailed as follows (See note 7):

	<b>September 2020</b>
Properties	¢ 140.428.751.626
Other	739.696.011
	<u>¢ 141.168.447.637</u>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The loan portfolio by type of guarantee is as follows:

The portfolio of direct loans and contingent loans by type of guarantee is as follows:

	<b>September 2020</b>	
	<u><b>Loan portfolio</b></u>	<u><b>Contingent accounts</b></u>
<b>Guarantee:</b>		
Fiduciary	¢ 618.845.654	116.765.700.390
Mortgage	1.541.940.927.165	0
Chattel mortgage	324.216.793.689	1.387.110.119
Other	1.039.873.573.911	120.199.594.416
	<u>¢ <b>2.906.650.140.419</b></u>	<u><b>238.352.404.925</b></u>

See notes 6 y 19

As of September 30, 2020, 64% of the loan portfolio is secured by mortgage or chattel collaterals.

Pursuant to SUGEF Directive 5-04: “Regulations on Credit Limits to Individual Persons and Economic Interest Groups”, the Bank deperates information on reported data of economic interest groups as part of their responsibility to identify significant administrative and stockholder’s equity relationships among debtors with total active operations. As of June 30, 2020, groups of borrowers (members) having operations that add 2% or more of adjusted capital and in groups report 5% or more of adjusted capital, are reported.

The concentration of the loan portfolio by economic interest group is as follows:

As of September 30, 2020:

<u><b>No.</b></u>	<u><b>Percentage</b></u>	<u><b>Band</b></u>	<u><b>Total value</b></u>	<u><b>N° customers</b></u>
1	0-4.99%	23.261.525.331	20.888.422.935	1
2	5-9.99%	46.523.050.661	148.111.409.597	4
3	10-14.99%	69.784.575.992	0	0
4	15-20%	93.046.101.322	0	0
<b>Total</b>			<u><u><b>168.999.832.532</b></u></u>	<u><u><b>5</b></u></u>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(b) Market risk management

Definitions

Market risk refers to potential losses that may occur in the value of assets and liabilities in the balance sheet due to adverse movements in the factors that determine their price, also known as risk factors, such as liquidity, interest rates, exchange rate and inflation, including the portfolios under management.

The liquidity risk is generated when the financial entity cannot meet the requirements or obligations with third parties due to insufficient cash flow, resulting from the outcome between term recoveries (asset operations) and term obligations (liability operations), or to improper price formation mechanism that disables the price to transform an asset and/or liability into cash.

Price of assets and inflations risk measures the potential losses that may occur in financial assets included in the Investment portfolios, and a decline in the purchasing power of the cash flows received by the Bank.

The risk of interest rates measures the possibility that the entity incurs in losses as a result of changes in the present value of assets and liabilities in which the Bank holds positions on or off balance.

The exchange rate risk is the possibility of economic loss due to variations in the exchange rate. This risk also arises when the net result of the exchange rate adjustments does not compensate proportionally the adjustment in the value of assets in foreign currency, causing a reduction in the equity indicator or in any model affected negatively in the determination of the exchange rate risk by variations in this macro price, as in Camel's indicators or own statisticians.

Management methodology

Two methodologies are used to measure exposure to price risk; one is regulatory and the other is internal. The regulatory methodology is monthly, uses historical simulation and its results are weighted in the price risk of Equity Sufficiency. For its part, the internal methodology uses the Montecarlo simulation to calculate the value at risk with daily monitoring of the impact of interest rate and exchange rate factors on the performance of the investment portfolio.

In terms of interest rates, the Bank is sensitive to this type of risk due to the mix of rates and terms, both in assets and liabilities. This sensibility is mitigated through the management of variable rates and the combination of terms monitored by internal models.

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## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

Counterparty risk management is carried out through the fulfillment of the investments profile established by the Bank in its internal policies, and the reporting of issuers, which analyzes the financial statements and the default risk by issuers, according to internal studies and risk rating. These limits are monitored weekly as established in the policies for managing the BCR's investment in securities.

The management of the liquidity risk is periodically assessed by daily updating of the BCR projected cash flows to six months through an automated application, for the preparation of the gap report to one and three months both in colones and in US dollars.

To decrease the liquidity risk, following variables are taken into consideration: deposits volatility, debt levels, liability structure, and liquidity degree of assets, availability of funding and the overall effectiveness of the gap of timelines.

#### Tolerance limits and risk indicators

The main indicators for controlling the market risk limits are the following:

- Liquidity risk: maximum expected collection received from the public by currency, term matching to one and three months by currency and coverage of Liquidity Index (ICL) by currency.
- Price risk: VaR of the Investment portfolio through internal models and regulations.
- Exchange risk: Sensibility of the equity position in foreign currency through internal models.
- Interest rate risk: Sensitivity of the financial margin due to movements in the reference interest rates.

Each of the previous indicators has parameters of acceptability and limits that are approved by the General Board of Directors.

#### Exposure and risk management

##### (c) Liquidity risk

Facing the global crisis caused by the COVID-19 pandemic, the Bank continues with the implementation of the liquidity strategy to face the increase in the volatilities of deposits from the public, thus addressing the preference of clients to keep balances at demand instead of at term.

Cash and cash equivalents show a year-on-year decrease of 12.17%, in almost all items except cash, checking accounts and demand deposits in foreign financial institutions and restricted availabilities (see cash and cash equivalents table in note 2).

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Demand deposits increased by 28.55% on a year-on-year basis, due to the increase in current account balances, demand savings deposits and other demand obligations with the public (see chart of demand obligations with the public in note 4).

Wholesale funding decreases by 7.71% on a year-on-year basis, mainly due to the decrease in the overdraft account in demand checking accounts in foreign financial entities. (See table of obligations with financial institutions and the Central Bank in note 5 of this document).

As of September 30, 2020, the Bank's liquidity coverage indicator (ICL) was of 1.45 times in colones and 1.45 times in US dollars, complying satisfactory values for the limits defined by SUGEF of 1 and according to the entity's risk profile.

In the following table, the results for the end of June 2020 are observed:

	<b>September 2020</b>
Liquidity coverage indicator (colones)	1,45
Liquidity coverage indicator (US dollars)	1,45
Regulatory limit	1

On the other hand, the term matches, another regulatory indicator, had the following results as of June 30, 2020:

Regulatory liquidity matches by currency and term

Indicator	Interpretation	Observation	Approved levels	
1-month term matching US dollars		1,64	Limit:	1,1
1-month term matching colones	Ratio between assets and liabilities with account's volatility	1,75	Limit:	1
3-months term matching US dollars		1,27	Limit:	0,94
3-months term matching colones		1,27	Limit:	0,85

The term matches show a constant and significant loose with respect to regulatory limits, which is a direct effect of the measures taken in the strategy for compliance with the Liquidity Coverage Indicator but mainly to attend to the emergency due to the Covid-19 pandemic that the country has been facing since March.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

As a preventive measure of liquidity risk management for the Covid-19, the Bank has implemented daily reports that allow monitoring of the main operational and structural indicators as well as an alignment of liquidity management with credit and market risk.

Projections have also been made of the magnitude of the impacts that the Covid-19 crisis could generate in the Bank's financial indicators, which are updated based on the development of the emergency, for decision-making

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The Bank's assets and liabilities mature as follows:

As of September 30, 2020

Assets	<u>Demand</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>More than 365 days</u>	<u>More than 30 days past due</u>	Total
Cash and due from banks	170.592.064.337	0	0	0	0	0	0	0	170.592.064.337
Cash reserve-BCCR	328.267.603.143	37.779.771.689	19.990.052.290	25.159.650.823	55.603.054.811	43.856.519.922	20.614.379.990	0	531.271.032.668
Investments	0	313.778.674.165	75.822.163.900	50.724.107.063	47.744.547.143	164.709.061.137	588.714.096.837	0	1.241.492.650.245
Interest on investments	0	2.741.465.686	2.921.620.379	1.666.865.632	3.302.395.087	6.436.740	0	0	10.638.783.524
Loan portfolio	0	43.036.304.826	40.059.388.302	40.523.876.554	75.163.021.360	126.835.921.900	2.396.278.403.969	168.045.447.946	2.889.942.364.857
Interest on loans	0	12.404.807.765	3.745.135.327	404.281.742	7.596.471.766	1.457.927.279	4.403.003.073	3.062.456.490	33.074.083.442
	<b>498.859.667.480</b>	<b>409.741.024.131</b>	<b>142.538.360.198</b>	<b>118.478.781.814</b>	<b>189.409.490.167</b>	<b>336.865.866.978</b>	<b>3.010.009.883.869</b>	<b>171.107.904.436</b>	<b>4.877.010.979.073</b>
<b>Liabilities</b>									
Obligations with the public	2.456.469.778.716	259.011.442.753	151.121.628.483	194.517.427.672	421.603.135.227	304.494.965.592	137.514.932.977	0	3.924.733.311.420
Obligations with financial entities	37.762.576.449	180.770.696.108	14.759.609.000	14.515.668.822	31.544.436.295	117.900.693.904	53.370.362.931	0	450.624.043.509
Charges payable	1.346.308.635	3.400.178.252	2.686.714.533	2.454.205.368	3.273.911.742	1.972.622.278	783.599.148	0	15.917.539.956
	<b>2.495.578.663.800</b>	<b>443.182.317.113</b>	<b>168.567.952.016</b>	<b>211.487.301.862</b>	<b>456.421.483.264</b>	<b>424.368.281.774</b>	<b>191.668.895.056</b>	<b>0</b>	<b>4.391.274.894.885</b>
<b>Assets and liabilities spread</b>	<b>(1.996.718.996.320)</b>	<b>(33.441.292.982)</b>	<b>(26.029.591.818)</b>	<b>(93.008.520.048)</b>	<b>(267.011.993.097)</b>	<b>(87.502.414.796)</b>	<b>2.818.340.988.813</b>	<b>171.107.904.436</b>	<b>485.736.084.188</b>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(d) Price risk of the portfolio

The Bank administers two investment portfolios: own Funds and Development Credit Funds.

In the case of own funds, a concentration of 53.58% is observed in instruments issued by the Ministry of Finance. In this sense and with the purpose of mitigating the market risk of these instruments, a strategy was defined in the investment position of this issuer.

The results of the VaR SUGEF 03-06 methodology are detailed below, considering both portfolios:

	<b>September 2020</b>
VaR	¢ 6.514.267.203

As part of the mitigation actions to contain the price risk, the Bank validates having investment concentrations subject to price assessment not greater to a limit defined by instrument. At the end of September 2020, there was no excess of the limit in any of the positions.

(e) Interest rate risk

The Bank has a credit portfolio, investments, and obligations with the public and with entities subject to variable interest rates and therefore sensitive to fluctuations in interest rates and cash flow risk. As of September 30, 2020, a sensitivity analysis on possible variations in interest rates has been developed.

Sensitivity to an increase in the interest rate of investments

	<b>September 2020</b>
Investment in financial instruments	¢ 1.084.843.058.479
Increase in rates by 1%	261.940.850,00
Increase in rates by 2%	¢ 523.881.701

Sensitivity to a decrease in the interest rate of investments

	<b>September 2020</b>
Investment in financial instruments	¢ 1.084.843.058.479
Decrease in rates by 1%	261.940.850,00
Decrease in rates by 2%	¢ 523.881.701

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

	<b>September 2020</b>
Investment in financial instruments	¢ 2.906.650.140.474
Increase in rates by 1%	1.263.717.887
Increase in rates by 2%	¢ <u>2.568.578.356</u>

	<b>September 2020</b>
Investment in financial instruments	¢ 2.906.650.140.474
Decrease in rates by 1%	1.218.995.337
Decrease in rates by 2%	¢ <u>2.430.758.875</u>

	<b>September 2020</b>
Obligations with the public	¢ 3.396.393.932.161
Increase in rates by 1%	2.424.279.149
Increase in rates by 2%	¢ <u>4.828.558.298</u>

Sensitivity to a decrease in rates of obligations with the public

	<b>September 2020</b>
Obligations with the public	¢ 3.396.393.932.161
Decrease in rates by 1%	2.424.279.149
Decrease in rates by 2%	¢ <u>4.828.558.298</u>

Sensitivity to an increase in rates of term financial obligations

	<b>September 2020</b>
Term financial obligations	¢ 236.911.765
Increase in rates by 1%	119.774.691
Increase in rates by 2%	¢ <u>239.549.382</u>

Sensitivity to a decrease in rates of term financial obligations

	<b>September 2020</b>
Term financial obligations	¢ 236.911.765
Decrease in rates by 1%	119.774.691
Decrease in rates by 2%	¢ <u>239.549.382</u>

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

As of September 30, 2020, interest rate terms for assets and liabilities are matched as follows:

	<u>Effective rate</u>	<u>1 to 30 days</u>	<u>31 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 360 days</u>	<u>361 to 720 days</u>	<u>More than 720 days</u>	<u>Total</u>
<b>Colones</b>								
<b>Assets</b>								
Investments	7,12%	¢ 269.209.477.213	131.878.906.148	52.895.376.170	107.661.013.155	64.058.845.622	281.740.902.630	907.444.520.938
Loan portfolio	8,74%	1.236.099.961.212	177.760.035.659	57.490.040.157	141.207.862.995	158.524.837.456	185.427.175.903	1.956.509.913.382
<b>Total recovered assets (*)</b>		<b>1.505.309.438.425</b>	<b>309.638.941.807</b>	<b>110.385.416.327</b>	<b>248.868.876.150</b>	<b>222.583.683.078</b>	<b>467.168.078.533</b>	<b>2.863.954.434.320</b>
<b>Liabilities</b>								
Obligations with the public		136.200.055.827	279.470.942.554	165.406.950.752	42.272.027.708	329.679.376.941	34.382.607.557	987.411.961.339
Demand	1,92%							
Term	5,60%							
Obligations with financial entities	0,00%	9.603.612.867	24.018.421.604	18.971.248.212	47.557.875	16.929.251.395	0	69.570.091.953
<b>Total matured liabilities (*)</b>		<b>145.803.668.694</b>	<b>303.489.364.158</b>	<b>184.378.198.964</b>	<b>42.319.585.583</b>	<b>346.608.628.336</b>	<b>34.382.607.557</b>	<b>1.056.982.053.292</b>
<b>Assets and liabilities spread</b>		<b>¢ 1.359.505.769.731</b>	<b>6.149.577.649</b>	<b>(73.992.782.637)</b>	<b>206.549.290.567</b>	<b>(124.024.945.258)</b>	<b>432.785.470.976</b>	<b>1.806.972.381.028</b>
<b>Dollars</b>								
<b>Assets</b>								
Investments	3,82%	¢ 51.093.765.832	24.948.139.975	8.049.812.570	53.608.064.840	81.319.993.880	127.329.998.400	346.349.775.497
Loan portfolio	5,66%	589.166.697.933	53.527.077.576	185.598.942.842	18.570.173.375	26.096.715.578	38.363.148.855	911.322.756.159
<b>Total recovered assets (*)</b>		<b>640.260.463.765</b>	<b>78.475.217.551</b>	<b>193.648.755.412</b>	<b>72.178.238.215</b>	<b>107.416.709.458</b>	<b>165.693.147.255</b>	<b>1.257.672.531.656</b>
<b>Liabilities</b>								
Obligations with the public		10.746.877.660	17.529.452.026	21.052.337.394	10.115.747.087	17.358.027.121	9.952.456.273	86.754.897.561
Demand	0,39%							
Term	3,09%							
Obligations with financial entities	2,33%	240.339.251	6.004.976.539	16.961.453.237	97.158.017.645	509.545.076	26.765.294.130	147.639.625.878
<b>Total matured liabilities (*)</b>		<b>10.987.216.911</b>	<b>23.534.428.565</b>	<b>38.013.790.631</b>	<b>107.273.764.732</b>	<b>17.867.572.197</b>	<b>36.717.750.403</b>	<b>234.394.523.439</b>
<b>Assets and liabilities spread</b>		<b>¢ 629.273.246.854</b>	<b>54.940.788.986</b>	<b>155.634.964.781</b>	<b>(35.095.526.517)</b>	<b>89.549.137.261</b>	<b>128.975.396.852</b>	<b>1.023.278.008.217</b>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Within the gap report (rate-sensitive assets and liabilities) in local currency, a total difference of asset recovery less maturity of liabilities as of September 30, 2020, for ₡1.806.972.361.028 while in foreign currency the same difference is of ₡1.023.278.008.217 is shown, being an improved inference in the balance sheet due to positive changes in interest rates, since the entity presents more assets than liabilities in both currencies. Regarding to term matching (sum of liquidity of assets and liabilities) as of September 2020, the total amount in local currency was of ₡354.058.017.552 while in foreign currency, the collected data for the compliance of obligations was of ₡131.678.066.634 however, on a consolidated basis it shows the necessary solvency to meet the liquid liabilities of the Organization.

(f) Foreign exchange risk

The Bank incurs in transactions denominated in US dollars and minority of Euros. This currency experiences periodic fluctuations with respect to the Costa Rican colon, in accordance with the monetary and exchange policies of the Central Bank of Costa Rica (BCCR). Therefore, any fluctuation in the value of the US Dollar affects the results, financial position and cash flows of the Entity, which constantly monitors its net foreign currency exposure in order to minimize this risk.

The Bank uses two indicators to manage the foreign exchange risk: matching assets and liabilities denominated in foreign currency and the sensitivity of the foreign currency position.

During the third quarter of 2020 the exchange rate has had a stable behavior, resulting in a volatility of 0.67%.

To comply with the Own Position in Foreign Currency, the Treasury Management had to maintain a positive position in foreign currency, reaching, US\$234 million (US\$235 million US\$263 million as of December 2019 and September 2019, respectively).

(Continue)



BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Monetary assets and liabilities denominated in U.S. dollars are as follows:

	<b>September 2020</b>
<b>Assets:</b>	
Cash and due from banks	US\$ 499.037.522
Investments in financial instruments	569.130.316
Loan portfolio	1.499.110.355
Accounts and accrued interest receivable	1.109.774
Investments in other companies	122.192.594
Other	26.503.696
<b>Total assets</b>	<b><u>2.717.084.257</u></b>
<b>Liabilities:</b>	
Obligations with the public	1.955.582.326
Other financial obligations	459.856.538
Other account payable and provisions	33.647.265
Other liabilities	22.256.151
<b>Total liabilities</b>	<b><u>2.471.342.280</u></b>
<b>Net position (excess of monetary assets over monetary liabilities)</b>	<b>US\$ <u>245.741.977</u></b>

Monetary assets and liabilities in foreign currency are valued by using the reference sale rate established by BCCR on the last business day of each month. As of September 30, 2020, that rate was ¢611 for US\$1.00.

Net exposure is not hedged. However, the Bank considers its position to be acceptable since it can buy or sell U.S. dollars in the market when necessary.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The following table shows the possible annual gains (losses) if there are variations of 5 percentage points in the exchange rates, respectively.

Sensitivity to an increase in the exchange rate

	<b>September 2020</b>
Net position	245.741.978
Closing exchange rate	606,68
Increase in the exchange rate by 5%	30,33
Profit	<u>7.453.354.193</u>

Sensitivity to a decrease in the exchange rate

	<b>September 2020</b>
Net position	245.741.978
Closing exchange rate	606,68
Decrease in the exchange rate by 5%	(30,33)
Loss	<u>(7.453.354.193)</u>

Monetary assets and liabilities in Euros are detailed as follows:

		<b>September 2020</b>
Assets:		
Cash and due from banks	EUR€	8.000.478
Other assets		79
Total assets		<u>8.000.557</u>
Liabilities:		
Obligations with the public		5.218.595
Other financial obligations		593.414
Other accounts payable and provisions		28.516
Other liabilities		123
Total liabilities		<u>5.840.648</u>
Net position (excess of monetary assets over monetary liabilities)	EUR€	<u><b>2.159.909</b></u>

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

As of June 30, 2020, complying with SUGEF's regulations, the term matching of the most important US dollar accounts is as follows:

Assets		<u>Demand</u>	<u>1 to 30 days</u>	<u>31 to 60 days</u>	<u>61 to 90 days</u>	<u>91 to 180 days</u>	<u>181 to 365 days</u>	<u>More than 365 days</u>	<u>More than 30 days past due</u>	<u>Total</u>
Cash and due from banks	US\$	159.434.396	0	0	0	0	0	0	0	159.434.396
Cash reserve- BCCR		190.629.478	36.431.240	10.670.822	10.792.150	28.915.174	39.953.722	22.210.540	0	339.603.126
Investments		0	84.127.325	31.275.356	0	7.032.243	89.038.565	351.408.477	0	562.881.966
Interest on investments		0	66.253	4.011.843	680.124	1.490.130	0	0	0	6.248.350
Loan portfolio		0	12.369.105	16.458.601	18.166.714	48.608.540	56.980.544	1.272.098.065	120.557.702	1.545.239.271
Interest on loans		0	3.379.538	764.999	186.369	9.902.711	709.516	(73.697)	4.209.308	19.078.744
		<u>350.063.874</u>	<u>136.373.461</u>	<u>63.181.621</u>	<u>29.825.357</u>	<u>95.948.798</u>	<u>186.682.347</u>	<u>1.645.643.385</u>	<u>124.767.010</u>	<u>2.632.485.853</u>
<b>Liabilities</b>										
Obligations with public		1.093.684.151	209.014.209	61.220.902	61.916.989	165.892.853	229.223.482	127.426.860	0	1.948.379.446
Obligations with financial									0	0
Entities		17.975.526	159.826.620	675.000	8.823.529	24.667.492	164.153.159	83.319.759	0	459.441.085
Charges payable		350.070	1.174.671	1.359.944	1.160.933	1.736.050	1.436.077	400.587	0	7.618.332
		<u>1.112.009.747</u>	<u>370.015.500</u>	<u>63.255.846</u>	<u>71.901.451</u>	<u>192.296.395</u>	<u>394.812.718</u>	<u>211.147.206</u>	<u>0</u>	<u>2.415.438.863</u>
<b>Assets and liabilities spread</b>	US\$	<u>(761.945.873)</u>	<u>(233.642.039)</u>	<u>(74.225)</u>	<u>(42.076.094)</u>	<u>(96.347.597)</u>	<u>(208.130.371)</u>	<u>1.434.496.179</u>	<u>124.767.010</u>	<u>217.046.990</u>

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## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

The Bank incurs in currency risk when the value of its dollar-denominated assets and liabilities is affected by exchange rate variations, which is recognized in the separate income statement.

For the period ended September 30, 2020, the separate accumulated financial statements show a net foreign exchange profit of ¢5.346.740.879.

#### (g) Capital Management

During 2020, the Capital Management Process in the BCR Financial Conglomerate has been monitored and followed up, aligned with the best practices established in the Basel regulatory framework; as well as documents issued by the European Central Bank.

The analysis is carried out by entity, type of risk, line of business and jointly, so that the information generated can be easily used in decision-making at the different levels of the organization.

The behavior of capital requirements has increased in the last period due to the events caused by Covid 19, and its effect on the credit risk associated with customers, the migration of balances from term products to demand products, that increase the liquidity risk, and the increase in the volatility of the prices of investment instruments with an impact on the price risk. However, the results at the end of September show that the Bank's capital levels are sufficient to cover the risks associated with its business.

#### (h) Operational risk management

Operational risk is defined as the possibility of loss resulting from inadequate use or unforeseen failure of processes, personnel, and internal and even automated systems or due to external events. This definition includes technological and legal risks but excludes the strategic and reputational risk.

The objective of the operational risk management is to minimize the financial losses of the Conglomerate, as well as achieving efficiency and effectiveness in the execution of processes and optimize its Internal Control System, for which an annual plan is established that incorporates the risk assessments to be carried out, and which is updated according to the internal and external environment, such as the Pandemic, which led to adjustments..

The model of management and control of operational risk establishes an evaluation process which comprises stages of identification, analysis and assessment, also, the control, mitigation, tracing and information is performed. Considering the above a set of qualitative and quantitative techniques and tools are developed that allow determining the risk level in the substantive processes; this from the estimate of the probability of occurrence of identified relevant events and their impact. Currently, events originated by external events as well as those caused by failures in processes, systems and persons are identified.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

The results of this evaluation model are associated with each of the business lines and each identified event is prioritized according to the risk level, being classified as low, medium or high exposure. As of the cut-off date, 60.74% are within the acceptability parameters, with a medium level exposure of 25.62% and a high level of 13.64%, establishing treatment plans in addition to the existing ones for the latter.

Regarding the calculation of regulatory capital, the BCR uses the basic method; however, it has been proposed to soon start the project to evolve to the standard method proposed by the Basel Committee. However, the priority in the operational risk management continues to focus on prevention and mitigation in the relevant processes.

Moreover, tracing of the risk indicators resulting in mitigating actions that prevent from materializing the events and mitigation plans for those events that present deviations from the admissibility parameters.

Given the nature of the entity and the risks inherent to its activities, the risk of internal and external fraud is considered as relevant, for which periodic training programs are implemented on elements that collaborate in the early detection of cases, as well as prevention announcements that warn of the different types of fraud and their evolution in our environment. Likewise, there are plans that will be activated in case of non-compliance of the parameters established.

Through the automated OpRisk tool, the operational risks detected in the risk evaluations are managed with their respective treatment plans. Additionally, the tool is fed with the materialized event reports recorded by the Bank's different offices, for which it has a consolidated database, complying with the provisions of the SUGEF Agreement 18-16. Reglamento sobre la gestión del riesgo operativa.

As part of the results obtained from the compilation of these events, the database for operating losses has been created, which allows to analyze, by business line, branch and types of risk, the gross and net losses at which it has been exposed in various periods at the BCR; likewise, it allows us to study the effectiveness of the implemented measures.

In line with the foregoing, as of the cut-off date there is a 69% decrease in gross operating losses compared to 2019 and a 53% decrease in net losses, as a result of better execution of existing measures and implementation of new controls. The following table reflects its distribution by type of risk:

(Continue)

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

**Gross operating losses**  
**- Percentage distribution by type of risk-**

<b>Type of operational risk</b>	<b>September 2020</b>
Clients, products and business practices	0,01%
Execution, delivery and management of processes	33,74%
External fraud	58,95%
Internal fraud	0,00%
Business interruption and system failures	3,21%
Labor relations and safety in the workplace	4,09%
<b>Total</b>	<b>100,00%</b>

Finally, with the measures implemented, they have made it possible to minimize the impact for the Bank by 55% in 2019 and during 2020 by 31%.

Regarding the IT risk management, has an annual risk evaluation plan as established by SUGEF 14-17 “Regulation on the management of information technology”, critical applications, IT outsourcing service contracts, strategic projects, new products, and requests for products on demand. These exercises identify and analyze the main risk events that might affect the smooth operation of the technological platform to develop risk treatment plans for mitigation and control.

In addition, as part of the IT risk management, indicators of the most relevant technological risks of the BCR Financial Conglomerate are considered and followed up on. For each of them there are corrective actions or a mitigation plan that is activated in the event of non-compliance with the tolerance or the established limit; they are regularly reviewed and updated in conjunction with risk takers, as part of the continuous improvement of the management process. The process began to identify new indicators on fraud issues.

The reports with the results are periodically presented to the corresponding corporate governance bodies, as part of the Management Information System.

All this is worked in accordance with current regulations: Corporate Risk Regulations, Corporate Risk Provisions and Procedures to manage IT risks in the BCR Financial Conglomerate. Additionally, to strengthen technological risk management, a methodology is being developed to evaluate it.

(Continue)

## BANCO DE COSTA RICA

### Notes to the unaudited separate financial statements

#### Business Continuity

##### Business Continuity Management

The BCR Financial Conglomerate has a Business Continuity Management System (hereinafter SGCN) in which the regulatory framework in this matter is defined (policy, provision, procedures and protocols). The system is designed based on the best international practices, additionally it seeks to meet regulatory requirements such as the SUGEF Agreement 14-17 General regulation of information technology management, SUGEF Agreement 18-16 Regulation on operational risk management and SUGEF Agreement 16-16 Regulations on corporate governance.

The SGCN considers 6 phases:

**Business Impact Analysis:** This phase is one of the most relevant of the SGCN and requires as inputs the services catalogs, processes, and activities to establish the scope of business continuity management. The analysis process requires determining the priority of services (according to the scope established at a strategic level) and the resources required to recover them during an unexpected interruption. The prioritization is oriented by the potential loss in time that an interruption of each service-product, process and critical activity could generate, starting from the most negative interruption scenario and without considering the probabilities.

**Risk Analysis:** in this phase, the SGCN requires integration with the risk analysis of the services-products, processes, or critical activities, to determine the most probable causes that could materialize a service interruption (continuity risk).

**Strategies:** based on the Impact Analysis and the Risk Analysis, recovery strategies are created aimed to respond with the available resources at the time the threats materialize as an interruption event. The strategy can also be approached from the perspective of the gaps between the required recovery times and the installed response capacity.

**Business Continuity Plan:** in this phase the roles, responsibilities, and structure to respond to interruption events are built and maintained. The development of contingency and recovery plans, procedures and protocols for critical services and the processes that support them are also considered.

**Training of the Business Continuity Plan:** once the continuity plan and support documents have been developed, training programs are developed with the different stakeholders, including corporate management levels up to the operational levels of the commercial offices where the Conglomerate offers its services. Each of these participants has a role in the continuity plan that is important for them to know, master and practice so that they can respond as planned and reduce the impact.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Testing of the Business Continuity Plan: with all the stakeholders trained, it is necessary to validate the effectiveness of the plans, as well as their validity, which is why it is necessary to develop a test program that allows each of the plans to be validated individually or jointly, in controlled scenarios and according to available resources. These tests are the engine of maintenance and continuous improvement of the SGCN, since they allow staff to train and identify improvements at a lower cost, in order to have a greater opportunity to respond and recover business continuity more quickly and with less impact in an event of disruption or real crisis.

The SGCN is a process that must be constantly reviewed to adjust to organizational changes at a strategic, tactical, and operational level.

Part of the SGCN structure is a Business Continuity Committee that establishes and monitors the management carried out by the different support groups every three months.

Finally, regarding the management of risk of money laundering, financing of terrorism and proliferation of weapons of mass destruction, the permanent reinforcement of the culture in the business areas is maintained with respect to the risk-based management scope. This management is aimed at preventing operations of concealment and mobilization of capital of doubtful origin or aimed at money laundering, financing terrorist activities or the proliferation of weapons of mass destruction through the Bank. This effort integrates normatively defined evaluation factors such as customers, products, services, channels, and geographical areas.

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BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

(35) Financial Information of the Development Financing Fund

The Bank presents the following financial information as manager of its Development Financing Fund (DCF):

<b>DEVELOPMENT FINANCING FUND</b>	
<b>BALANCE SHEET</b>	
As of September 30, 2020	
Financial Information	
<i>(In colones without cents)</i>	
	<b>September</b>
	<b>2020</b>
<b>ASSETS</b>	
<b>Availabilities</b>	€ <b>232.992.771</b>
Cash	232.992.771
<b>Investments in financial instruments</b>	<b>4.002.060.517</b>
At fair value with changes through profit or loss	3.250.072.167
At fair value with changes through other comprehensive income	750.000.000
Interest receivable	1.988.350
<b>Loan Portfolio</b>	<b>29.703.443.655</b>
Current loans	27.993.486.879
Past due loans	1.770.044.428
Loans on legal collection	182.915.975
(Deferred income loan portfolio)	(270.232.827)
Interest receivable	166.599.642
(Allowance for impairment)	(139.370.442)
<b>Accounts and commissions receivable</b>	<b>1.053.185</b>
Other accounts receivable	1.688.320
(Allowance for impairment)	(635.135)
<b>Other assets</b>	<b>4.330.698</b>
Intangible assets	4.330.698
<b>TOTAL ASSETS</b>	€ <b>33.943.880.826</b>
<b>Liabilities</b>	
<b>Accounts payable and provisions</b>	€ <b>16.895.890</b>
Other sundry accounts payable	16.895.890
<b>Other liabilities</b>	<b>302.649</b>
Other liabilities	302.649
<b>TOTAL LIABILITIES</b>	€ <b>17.198.539</b>
<b>EQUITY</b>	
<b>Contributions from Banco de Costa Rica</b>	€ <b>24.366.546.259</b>
<b>Adjustments to equity – Other comprehensive income</b>	<b>0</b>
<b>Retained earnings from previous periods</b>	<b>8.943.182.201</b>
<b>Result of current period</b>	<b>616.953.827</b>
<b>TOTAL EQUITY</b>	€ <b>33.926.682.287</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	€ <b>33.943.880.826</b>
<b>DEBIT CONTINGENT ACCOUNTS</b>	€ <b>6.975.225</b>
<b>OTHER DEBIT MEMORANDA ACCOUNTS</b>	
Own debit memoranda accounts	3.749.747.791

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

**DEVELOPMENT FINANCING FUND  
INCOME STATEMENT**

For the period ended September 30, 2020

Financial Información

*(In colones without cents)*

	<b>September 2020</b>	<b>Quarter from July 1 to September 30 2020</b>
<b>Financial income</b>		
For investment in financial instruments	¢ 187	187
For loan portfolio	1.251.909.984	379.089.372
For profit on exchange differences	10.178.841	6.389.495
For other financial income	1.841.374	1.840.559
<b>Total financial income</b>	<b>1.263.930.386</b>	<b>387.319.613</b>
For allowance on asset impairment	173.750.222	294.364
For asset recovery and decrease in allowance	243.155.795	301.078
<b>FINANCIAL INCOME</b>	<b>1.333.335.959</b>	<b>387.326.327</b>
<b>Other operating income</b>		
For other operating income	22.817.626	8.109.632
For arbitrage and currency exchange	6	0
For services commissions	660.314	7.910
<b>Total other operating expenses</b>	<b>23.477.946</b>	<b>8.117.542</b>
<b>Other operating expenses</b>		
For other operating expenses	739.860.078	367.174.409
<b>Total other operating expenses</b>	<b>739.860.078</b>	<b>367.174.409</b>
<b>GROSS OPERATING INCOME</b>	<b>616.953.827</b>	<b>28.269.460</b>
<b>RESULT OF THE PERIOD</b>	¢ <b>616.953.827</b>	<b>28.269.460</b>

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

Loan portfolio of the Development Financing Fund

The following information contained in notes a) through f) represent financial information.

a) Loan portfolio by sector

	<b>September 2020</b>
<b>Activity</b>	
Agriculture, livestock, hunting and related services	¢ 9.291.682.130
Manufacturing	4.622.216.375
Trade	128.539.706
Services	14.046.145.634
Transportation	175.010.278
Construction, purchase, and repair of real estate	1.163.681.010 228.646.200
Hospitality	224.579.122
Education	65.946.826
	<hr/> 29.946.447.281
Plus: interest receivable	166.599.642
Less Deferred income in loan portfolio	(270.232.827)
Allowance for impairment	(139.370.442)
	<hr/> <b>¢ 29.703.443.654</b> <hr/>

b) Loan portfolio by arrears:

The loan portfolio by arrears is detailed as follows:

	<b>September 2020</b>
Up to date	¢ 27.993.486.879
From 1 to 30 days	981.606.428
From 31 to 60 days	423.975.113
From 61 to 90 days	97.247.730
From 91 to 120 days	49.412.401
From 121 to 180 days	53.502.581
More than 180 days	347.216.150
	<hr/> <b>¢ 29.946.447.282</b> <hr/>

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

c) Delinquent and past due loan portfolio

Delinquent and past due loans, including loans with interest recognition based on cash and loans in non-accrual status of interest, are summarized below:

		<b>September 2020</b>
Number of operations		14
Past due loans in non- accrual status of interest	¢	347.216.150
Past due loans for which interest is recognized	¢	1.605.744.252
Total unearned interest	¢	15.600.035

Loans on legal collection as of June 30, 2020:

<u># operations</u>	<u>Percentage</u>		<u>Balance</u>
9	0,61%	¢	182.915.975

d) Interest receivable on loan portfolio:

Interest receivables are as follows:

		<b>September 2020</b>
Current loans	¢	142.247.137
Pat due loans		18.280.774
Loans on judicial collection		6.071.731
	¢	<b>166.599.642</b>

e) Allowance for bad loans:

The movement of allowance for bad loans is as follows:

<b>Opening balance 2020</b>	¢	<b>197.505.723</b>
Plus:		
Allowance charged to profit or loss		173.117.750
Transfer of balances		52.104
Adjustment for exchange differences		22.025.495
Less:		
Transfer to insolvent		(10.681.080)
Reversal of allowance against income		(242.649.559)
<b>Balance as of September 30, 2020</b>	¢	<b>139.370.433</b>

BANCO DE COSTA RICA

Notes to the unaudited separate financial statements

f) Loan portfolio by type of guarantee:

The loan portfolio by type of guarantee is detailed as follows:

	<b>September 2020</b>
<b>Guarantee</b>	
Mortgage	¢ 6.782.300.343
Chattel	9.224.426.924
Others	13.939.720.014
	<b>¢ 29.946.447.281</b>

g) Financial instruments of the Development Financing Fund with credit risk exposure are detailed as follows:

	<b>Direct Loan Portfolio September 2020</b>
Principal	¢ 29.946.447.281
Interest receivable	166.599.642
	30.113.046.923
Allowance for bad loans	(139.370.442)
Carrying amount	¢ 29.973.676.481
Loan portfolio	
Total balances:	
D	¢ 1.173.147.674
E	4.317.826
1	27.634.625.410
2	569.130.848
3	189.091.174
4	129.897.505
5	31.695.209
6	381.141.277
	30.113.046.923
Minimum allowance	(115.540.951)
Carrying amount, net	¢ 29.997.505.972
Carrying amount	30.113.046.923
Allowance for bad loans	(115.540.951)
Allowance (surplus) deficit on minimum allowance	(23.829.490)
Carrying amount, net	6a ¢ 29.973.676.482

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Notes to the unaudited separate financial statements

The assessed loan portfolio including allowance is detailed as follows:

As of September 30, 2020

Loan Portfolio	Direct Loan Portfolio			
	Principal	Covered Balance	Overdraft	Allowance
Direct generic allowance				
1	27.634.625.411	17.480.064.538	10.154.560.873	69.506.909
D	1.173.147.674	701.037	1.172.446.636	5.865.738
	<u>28.807.773.085</u>	<u>17.480.765.575</u>	<u>11.327.007.509</u>	<u>75.372.647</u>
Direct specific allowance				
2	569.130.847	536.257.075	32.873.772	4.324.973
3	189.091.174	182.886.020	6.205.154	2.465.719
4	129.897.505	128.893.734	1.003.772	1.146.355
5	31.695.209	31.695.209	0	158.476
6	381.141.277	350.844.306	30.296.971	32.051.192
E	4.317.826	4.317.826	0	21.589
	<u>1.305.273.838</u>	<u>1.234.894.170</u>	<u>70.379.669</u>	<u>40.168.304</u>
	<u>30.113.046.923</u>	<u>18.715.659.745</u>	<u>11.397.387.178</u>	<u>115.540.951</u>

Loan Portfolio	Direct Loan Portfolio			
	Principal	Covered Balance	Overdraft	Allowance
Aging of loan portfolio				
Direct generic allowance				
Up to date	28.135.734.016	16.962.737.022	11.172.996.994	69.506.909
Equal or less than 30 days	987.641.295	823.576.679	164.064.616	5.865.738
	<u>29.123.375.311</u>	<u>17.786.313.701</u>	<u>11.337.061.610</u>	<u>75.372.647</u>
Direct specific allowance				
Equal or less than 60 days	427.922.068	397.945.710	29.976.358	7.201.272
Equal or less than 90 days	92.048.033	91.995.794	52.239	473.039
Equal or less than 180 days	112.218.542	95.015.802	17.202.740	17.677.819
More than 180 days	357.482.969	344.388.738	13.094.231	14.816.174
	<u>989.671.612</u>	<u>929.346.044</u>	<u>60.325.568</u>	<u>40.168.304</u>
	<u>30.113.046.923</u>	<u>18.715.659.745</u>	<u>11.397.387.178</u>	<u>115.540.951</u>

**Loans receivable from clients**

As of September, 2020	Loans receivable from clients	
	Gross	Net
Risk category:		
1	27.634.625.410	27.565.118.503
2	569.130.848	564.805.874
3	189.091.174	186.625.455
4	129.897.505	128.751.151
5	31.695.209	31.536.733
6	381.141.277	349.090.084
D	1.173.147.674	1.167.281.935
E	4.317.826	4.296.237
	<u>30.113.046.923</u>	<u>29.997.505.972</u>

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Notes to the unaudited separate financial statements

(36) Situation of the Development Credit Fun

The Bank presents the following financial information as manager of the Development Credit Fund (DCF):

<b>DEVELOPMENT CREDIT FUND</b>	
<b>STATEMENT OF FINANCIAL POSITION</b>	
As of September 30, 2020	
Financial Information	
<i>(In colones without cents)</i>	
	<b>September 2020</b>
<b>ASSETS</b>	
<b>Availabilities</b>	¢ <b>666.006.054</b>
Central Bank of Costa Rica	666.006.054
<b>Investment in financial instruments</b>	<b>158.164.294.667</b>
At fair value through profit or loss	4.329.090.274
At fair value through other comprehensive income	152.341.231.470
Interest receivable	1.493.972.923
<b>Loan Portfolio</b>	<b>17.029.143.777</b>
Current loans	16.985.606.636
Past due loans	323.297.715
(Deferred income loan portfolio)	(290.582.193)
Interest receivable	76.824.648
(Allowance for impairment)	(66.003.028)
<b>Other assets</b>	<b>210.882.588</b>
Other assets	210.882.588
<b>TOTAL ASSETS</b>	¢ <b>176.070.327.086</b>
<b>LIABILITIES</b>	
<b>Obligations with entities</b>	¢ <b>171.091.024.108</b>
Demand	171.091.024.108
<b>Other liabilities</b>	<b>1.558.875.247</b>
Other liabilities	1.558.875.247
<b>TOTAL LIABILITIES</b>	¢ <b>172.649.899.354</b>
<b>EQUITY</b>	
<b>Results of the previous period</b>	<b>2.053.370.064</b>
<b>Results of the current period</b>	<b>1.367.057.668</b>
<b>TOTAL EQUITY</b>	¢ <b>3.420.427.732</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	¢ <b>176.070.327.086</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	
Own debit memoranda account	23.269.148.081
Interest receivable memoranda accounts	12.837.260

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Notes to the unaudited separate financial statements

**DEVELOPMENT CREDIT FUND  
INCOME STATEMENT**

For the period ended September 30, 2020

Financial Information

(In colones without cents)

	<b>September 2020</b>	<b>Quarter from July 1 to September 30 2020</b>
<b>Financial Income</b>		
For investments in financial instruments	¢ 4.822.033.996	2.049.376.712
For loan portfolio	778.007.150	236.727.550
For exchange rate differences	1.322.197.835	897.722.061
Other financial incomes	290.880.142	52.555.492
<b>Total Financial Income</b>	<b>7.213.119.123</b>	<b>3.236.381.815</b>
<b>Financial Expenses</b>		
For obligations with the public	1.196.461.114	357.558.479
Other financial expenses	11.017.870	1.816.418
<b>Total Financial Expenses</b>	<b>1.207.478.985</b>	<b>359.374.897</b>
For allowance of asset impairment	1.077.112.362	179.891.744
Asset recovery and decrease in allowance	739.040.806	652.415.437
<b>FINANCIAL RESULT</b>	<b>5.667.568.582</b>	<b>3.349.530.611</b>
<b>Other Operating Income</b>		
For commission for services	10.061	0
For arbitrage and currency exchange	222.703.205	50.877.059
For other operating income	198.149.561	117.922
<b>Total Other Operating Income</b>	<b>420.862.828</b>	<b>50.994.982</b>
<b>Other Operating Expenses</b>		
For exchange and arbitration. foreign currency	83.098.402	7.803.429
For other operating expenses	232.636.077	30.933.199
<b>Total Other Operating Expenses</b>	<b>315.734.479</b>	<b>38.736.628</b>
<b>GROSS OPERATING INCOME</b>	<b>5.772.696.931</b>	<b>3.361.788.965</b>
Earnings transferred to the National Development Trust	4.405.639.263	2.760.256.309
<b>RESULT OF THE PERIOD</b>	<b>¢ 1.367.057.668</b>	<b>601.532.656</b>
<b>PROFIT SHARING</b>		
Profit transferred to the National Development Trust	¢ 4.405.639.263	2.760.256.309
Commission for management of the Development Credit Fund	1.367.057.668	601.532.656
	<b>¢ 5.772.696.931</b>	<b>3.361.788.965</b>



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Notes to the unaudited separate financial statements

From November 27, 2014, after Law No. 9274 was reformed (Comprehensive Reform of the Development Banking System), as per article 36, the managing bank will receive a commission of maximum 10% of the earnings, set by the Governing Board, to cover operation costs, services and any other cost arising from managing the investments.

Investments in financial instruments of the Development Credit Fund (FCD) are detailed as follows:

		<b>September 2020</b>
At fair value through profit or loss	¢	4.329.090.274
At fair value through other comprehensive income		152.341.231.470
Interest receivable for investments at fair value through comprehensive income		1.493.972.923
	¢	<b><u>158.164.294.667</u></b>

		<b>September 2020</b>
<b>At fair value through profit or loss</b>		<b>Fair value</b>
<u>Local issuers:</u>		
State-owned Banks	¢	4.329.090.274
	¢	<b><u>4.329.090.274</u></b>

		<b>September 2020</b>
<b>At fair value through other comprehensive income</b>		<b>Fair value</b>
<u>Issuers abroad:</u>		
Government	¢	97.902.398.999
State-owned Banks		54.438.832.471
	¢	<b><u>152.341.231.470</u></b>

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Notes to the unaudited separate financial statements

Loan portfolio of the Development Credit Fund

The following information contained in notes a) through d) below corresponds to financial information.

a) Loan portfolio by sector

	<b>September 2020</b>
<b>Sector</b>	
Agriculture, livestock, hunting and related services	¢ 6.669.333.737
Manufacturing	7.772.510.038
Trading	8.000.000
Services	2.859.060.575
	17.308.904.350
Plus interest receivable	76.824.648
Less deferred income loan portfolio	(290.582.193)
Allowance for impairment	(66.003.028)
	¢ <b><u>17.029.143.777</u></b>

b) Loan portfolio by arrears:

Loan portfolio by arrears is detailed as follows:

	<b>September 2020</b>
Up to date	¢ 16.985.606.636
From 31 to 60 days	110.874.791
From 91 to 120 days	212.422.924
	¢ <b><u>17.308.904.350</u></b>

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Notes to the unaudited separate financial statements

c) Delinquent and past due loans

Delinquent and past due loans, including loans with interest recognition on cash basis and interest not received on this loan, are summarized as follows:

	<b>September 2020</b>
	<hr/>
Delinquent and past due loans	
with interest recognition	¢ 323.297.715
Total of not received interest	¢ 12.837.260

d) Interest receivable for loan portfolio

Interests receivable are detailed as follows:

	<b>September 2020</b>
	<hr/>
Current loans	¢ 74.545.327
Past due loans	2.279.321
	<hr/>
	¢ <b>76.824.648</b>
	<hr/> <hr/>

e) Allowance for bad loans

<b>Balance at the beginning of 2020</b>	¢ <b>70.058.329</b>
Plus:	
Allowance charged to profit or loss	23.137.384
Adjustment for exchange differences	2.157.969
Less:	
Adjustment for exchange differences	(488.607)
Reversion of allowance against income	(28.862.047)
<b>Balance as of September 30, 2020</b>	¢ <b>66.003.029</b>
	<hr/> <hr/>

f) Loan portfolio by type of guarantee:

The loan portfolio detailed by guarantee is as follows:

	<b>September 2020</b>
	<hr/>
<b>Guarantee</b>	
Mortgage	4.944.007.819
Chattel	1.094.965.206
Other	11.269.931.326
	<hr/>
	¢ <b>17.308.904.350</b>
	<hr/> <hr/>

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Notes to the unaudited separate financial statements

- g) The financial instruments of the Development Credit Fund exposed to credit risk are detailed as follows:

		<b><u>Direct Credit</u></b> <b><u>Portfolio</u></b> <b>September</b> <b>2020</b>
Principal	¢	17.308.904.350
Interest receivable		76.824.648
		<b>17.385.728.998</b>
Allowance for bad loans		(66.003.028)
Carrying amount	¢	<b>17.319.725.970</b>
Loan portfolio		
Total balances		
1	¢	16.996.584.885
2		0
3		111.145.818
4		277.998.295
5		0
		17.385.728.998
Minimum allowance		(44.437.183)
Carrying amount, net	¢	17.341.291.815
Carrying amount		17.385.728.998
Allowance for loans		(44.437.183)
(Surplus) inadequacy of allowance		(21.565.845)
Carrying amount, net	6a ¢	<u>17.319.725.970</u>

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Notes to the unaudited separate financial statements

The assessed loan portfolio including allowance is detailed as follows:

As of September 30, 2020

Loan portfolio	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Direct generic allowance				
1	¢ 16.996.584.885	800.341.493	16.196.243.391	42.491.462
	<u>16.996.584.885</u>	<u>800.341.493</u>	<u>16.196.243.391</u>	<u>42.491.462</u>
Direct specific allowance				
3	111.145.818	111.145.819	0	555.730
4	277.998.295	277.998.295	0	1.389.991
	<u>389.144.113</u>	<u>389.144.114</u>	<u>0</u>	<u>1.945.721</u>
	¢ <u>17.385.728.998</u>	<u>1.189.485.607</u>	<u>16.196.243.391</u>	<u>44.437.183</u>

Loan portfolio	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Aging of loan portfolio				
Direct generic allowance				
Up to date	¢ 17.060.151.962	863.908.571	16.196.243.391	42.809.297
Equal or less than 30 days	111.145.819	111.145.819	0	555.730
More than 180 days	214.431.217	214.431.217	0	1.072.156
	<u>17.385.728.998</u>	<u>1.189.485.607</u>	<u>16.196.243.391</u>	<u>44.437.183</u>
	¢ <u>17.385.728.998</u>	<u>1.189.485.607</u>	<u>16.196.243.391</u>	<u>44.437.183</u>

As of September 30, 2020	Loans receivable from clients	
	Gross	Net
Risk category		
1	¢ 16.996.584.884	16.954.093.422
3	111.145.818	110.590.089
4	277.998.295	276.608.304
	¢ <u>17.385.728.998</u>	<u>17.341.291.815</u>

Upon request by the private banks for a change as to operate in accordance with provisions contained in subparagraph ii) of Law N.1644, Organic Law of the National Financial System, the Governing Body of Development Banking, authorizes the managing banks to transfer the funds of the Development Credit Fund, whose refund would be done in monthly installments during a maximum period of six months.

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Notes to the unaudited separate financial statements

As of September 30, 2020, no transfers of resources have been made from the Development Credit Fund.

	<b>September 2020</b>
Banco Promerica	¢ 5.633.925.054
	¢ <b><u>5.633.925.054</u></b>

(37) Transition to the International Financing Reporting Standards (IFRSs)

a) IAS 1: Presentation of Financial Statements

New IAS I is effective as from the periods beginning on or after January 1, 2009.

The presentation of financial statements required by the Board differs in some respects from presentation under IAS 1. Following are some of the most significant differences:

SUGEF Standards do not allow certain transactions, such as clearing house balances, gains or losses on the sale of financial instruments, income taxes, among others, to be presented on a net basis. Given their nature, IFRSs require those balances to be presented net to prevent assets and liabilities or profit or loss from being overstated.

b) IAS 1: Presentation of Financial Statements (revised)

This standard is applicable for periods beginning on or after July 1, 2012. The changes that have been included in IAS 1 are specific paragraphs related to the presentation of other comprehensive income. These changes will require the other comprehensive income to be presented separating those that cannot be reclassified subsequently to the income statement and those that may be reclassified subsequent to the income statement if certain specific conditions are met.

IAS 1 requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are amounts reclassified to profit or loss in the current period that were previously recognized in other comprehensive income.

Revised IAS I changes the name of some financial statements, using “statement of financial position” instead of balance sheet.

IAS I require an entity to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes retrospective restatement.

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Notes to the unaudited separate financial statements

The financial statements presentation format is determined by the Board and can be different from the options permitted on certain IFRS and IAS.

c) IAS 7: Statements of Cash Flows

The Board has only authorized preparation of the cash flow statement using the indirect method. The direct method is also acceptable under IAS 7.

d) IAS 8: Accounting Policies. Changes in Accounting Estimates. and Errors

In some cases, SUGEF has authorized the reporting of notices of deficiencies received from Tax Authorities against prior period retained earnings.

e) IAS 12: Income tax

A company recognizes all the tax consequences of the payment of dividends in the same way as the income tax.

f) IAS 16: Property, Plant and Equipment

The Standard issued by the Board requires the revaluation of property through appraisals made by independent appraisers at least once every five years, eliminating the option to carry these assets at cost or to revalue other types of assets.

Furthermore, SUGEF permits the conversion (capitalize) of the surplus revaluation directly in equity (only for state banks), without having to relocate previously to retained earnings, as required by IAS 16.

Moreover, under IAS 16, depreciation continues on property, plant and equipment, even if the asset is idle. The Standard issued by the Board allows entities to suspend the depreciation of idle assets and reclassify them as realizable assets.

g) IAS 18: Revenue

The Board has allowed regulated financial entities to recognize loan fees and commissions collected prior to January 1, 2003 as revenue. Additionally, the Board has permitted the deferral of the credit fee formalization of 25%, 50%, and 100% of loan fees and commissions for transactions completed in 2003, 2004, and 2005, respectively. IAS 18 prescribes deferral of 100% of those fees and commissions over the loan term.

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Notes to the unaudited separate financial statements

The Board has also allowed deferral of the net excess of loan fee income minus expenses incurred for activities such as assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, preparation and processing of documents, and settlement of the operation. IAS 18 does not allow deferral on a net basis of loan fee income. Instead, it prescribes deferral of 100% of loan fee income, and permits the deferral of only certain incremental transaction costs, rather than all direct costs. Accordingly, when costs exceed income, loan fee income is not deferred, since the Board only allows the net excess of income over expenses to be deferred. This treatment does not conform to IAS 18 and IAS 39, which prescribe separate treatment for income and expenses (see comments on IAS 39).

From January 1, 2014 the treatment of loan commissions was implemented as directed in IAS 18.

h) Revised IAS 19: Employee Benefits

This standard is modified to recognize that the discount rate to be used must correspond with bonds in local currency.

The transition date is for periods beginning on or after January 1, 2017 and may be applied in advance, disclosing that fact. Any adjustment for its application must be made against retained earnings at the beginning of the period.

This standard is for application in the periods that begin in or after January 1, 2013. It includes changes referring to the benefit plans defined for which it previously required that the measurements of the actuarial appraisals were recognized in the income statement or in the other comprehensive income. The new IAS 19 will require the changes in measurements to be included in other comprehensive income and the cost of services and net interest to be included in the income statement.

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

The Board requires that the financial statements of regulated entities to be presented in colones as the functional currency.

j) IAS 23: Borrowing costs

A company treats as part of the general financing any financing originally made to develop an asset when an asset is ready for use or sale.



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Notes to the unaudited separate financial statements

k) IAS 24: Related Party Disclosures

The International Accounting Standards Board revised IAS 24 in 2009 in order to: (a) simplify the definition of “related parties”, clarify the meaning to be given to this term and eliminate the incoherencies of the definition; (b) Provide a partial exemption from the requirement of information disclosed by entities related to the government.

This standard will be applied retroactively for the annual periods starting as from January 1, 2011.

l) IAS 27: Consolidated and Separate Financial Statements

The Board requires that the financial statements of a parent entity to be presented separately, measuring its investments by the equity method. Under IAS 27, a parent is required to present consolidated financial statements. A parent company needs not to present consolidated financial statements when the ultimate or any intermediate parent of the parent produces consolidated financial statements available for public use, provided certain other requirements are also met. However, in this case, IAS 27 requires that investments be accounted for at cost.

In the case of financial groups, the holding company must consolidate the financial statements of all of the companies of the group in which it holds an ownership interest of twenty-five percent (25%) or more, irrespective of control. For such purposes, proportionate consolidation should not be used, except in the consolidation of investments in joint ventures.

Amended IAS 27 (2008) requires accounting for changes in ownership interests by the Bank in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the Bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in profit or loss. The amendments to IAS 27 became mandatory for the Bank's 2010 consolidated financial statements. These amendments have not been adopted by the Board.

The objective of this standard is to describe accounting treatment and disclosures required by subsidiaries, joint ventures, and associates when the entity presents separate financial statements.

m) IAS 28: Investments in Associates and Joint Ventures

The Board requires consolidation of investments in companies in which an entity holds twenty-five percent (25%) or more equity interest, irrespective of any considerations of control. Such treatment does not conform to IAS 27 and IAS 28.

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Notes to the unaudited separate financial statements

The objective of this standard is to describe the accounting treatment for Investments in partners and it determines the requirements for the application of the method of equity participation when recording investments in associates and joint ventures.

n) Revised IAS 32: Financial Instruments: Presentation

Revised IAS 32 provides new guidelines clarifying the classification of financial instruments as liabilities or equity (e.g. preferred shares), SUGEVAL determines whether those shares fulfill the requirements of capital stock.

o) Amendments to IAS 32: Financial Instruments - Presentation and IAS 1: Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments to the standards require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity if certain conditions are met. These changes have not been adopted by the Board

p) IAS 37: Provisions, Contingent Liabilities and Contingent Assets

La SUGEF requiere que para los activos contingentes se registre una provisión para posibles pérdidas. La NIC 37 no permite este tipo de provisiones.

q) IAS 38: Intangible Assets

The commercial banks listed in article 1 of Internal Regulations National Banking System (Law No. 1644) may present organization and installation expenses as an asset in the balance sheet, however, those expenses must be fully amortized on the straight-line method over a maximum of five years. The foregoing is not in accordance with the provisions of the Standard.

Automatic applications should be amortized systematically by the straight-line method during the term which produces economic benefits; such term could not exceed five years. Similar proceeding applies to obtained goodwill.

IAS 38 allows different methods to distribute an asset amortizable amount during useful life. Useful life of automatic applications could be longer than five years as stated by CONASSIF standards.

On the other hand, IFRS do not require annual goodwill amortization, only yearly assessment for impairment is required.

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Notes to the unaudited separate financial statements

r) IAS 39: Financial Instruments: Recognition and Measurement

The Board requires that the loan portfolio be classified pursuant to SUGEF Directive 1-05 and that the allowance for loan impairment be determined based on that classification. It also allows excess allowances to be booked. IAS 39 requires that the allowance for loan impairment be determined based on a financial analysis of actual losses. IAS 39 also prohibits the recording of provisions for contingent accounts. Any excess allowances must be reversed in the income statement.

Revised IAS 39 introduced changes with respect to classification of financial instruments, which have not been adopted by the Board. The revised version includes the following changes:

- The option of classifying loans and receivables as available for sale was established.
- Securities quoted in an active market may be classified as available for sale, held-for-trading, or held to maturity.
- The “fair value option” was established to designate any financial instrument to be measured at fair value through profit or loss, provided a series of requirements are met (e.g. the instrument has been measured at fair value since the original acquisition date.)
- The category of loans and receivables was expanded to include purchased loans and receivables that are not quoted in an active market.

The Board has also allowed capitalization of direct costs incurred for assessment of the borrower's financial position, evaluation and recognition of guarantees, sureties, or other collateral instruments, negotiation of the terms of the instrument, and preparation and processing of documents, net of income from loan fees. However, IAS 39 only permits capitalization of incremental transaction costs, which are to be presented as part of the financial instrument and may not be netted against loan fee income (see comments on IAS 18).

Regular purchases and sales of securities are to be recognized using the settlement date accounting only.

The amendment to IAS 39 clarifies the existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments to IAS 39 became mandatory for 2010 financial statements, with retrospective application. This amendment has not been adopted by the Board.

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Notes to the unaudited separate financial statements

s) IAS 40: Investment Property

IAS 40 allows entities to choose between the fair value model and the cost model to measure their investment property. The Standard issued by the Board only allows entities to use the fair value model to measure this type of assets, unless clear evidence for determining the fair value of the assets is unavailable.

t) Revised IFRS 3: Business Combinations

The revised standard (2008) incorporates the following changes:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquirer will be measured at fair value, with the related gain or loss recognized in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquirer, on a transaction-by-transaction basis.

Revised IFRS 3, which became mandatory for 2010 financial statements, will be applied prospectively. This Standard has not been adopted by the Board.

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

The Board requires that an allowance be booked for 100% of the carrying amount of assets that have not been sold within two years. IFRS 5 requires that such assets be recorded and measured at the lower of cost or fair value, discounting the future cash flows of assets to be sold in more than one year. Accordingly, assets could be understated, with excess allowances.

v) Amendments to IFRS 7: Financial Instruments – Disclosures

In March 2009, the IASB issued certain amendments to IFRS 7, Financial Instruments: Disclosure, which requires enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

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The amendments require that fair value measurement disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorized as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefor, are required to be disclosed for each class of financial asset.

Furthermore, the definition of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative and derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called. These amendments have not been adopted by the Board.

w) IFRS 9: Financial Instruments

IFRS 9 deals with classification and measurement of financial assets. The requirements of this Standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The Standard contains two primary measurement categories for financial assets: amortized cost and fair value. The Standard eliminates the existing IAS 39 categories of held to maturity, available for sale, and loans and receivables. For an investment in an equity instrument which is not held for trading, the Standard permits an irrevocable election, at initial recognition, on an individual share-by-share basis, to present all fair value changes in other comprehensive income. No amount recognized in other comprehensive income would ever be reclassified to profit or loss later.

The standard requires that derivatives embedded in contracts with a host contract that is a financial asset within the scope of the standard not to be separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

This standard requires entities to determine whether presenting the effects of changes in the credit risk of a liability designated at fair value through profit or loss would create an accounting mismatch based on facts and circumstances at the date on which the financial liability is initially recognized.

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The objective of this IFRS is to establish the principles for the financial information about financial assets so that it will present useful and relevant information for the users of the financial statements facing the evaluation of the amounts, schedule and uncertainty of the future cash flows of the entity. The standard includes three chapters on recognition, impairment of financial assets and heading instruments.

This standard supersedes IFRS 9 (2009), IFRS 9 (2010) and IFRS 9 (2013). However, for annual periods beginning in or before January 1, 2018, and entity may elect to apply previous versions of IFRS 9 if, and only if the corresponding date of the entity initial application is prior to February 1, 2015.

x) IFRS 10: Consolidated Financial Statements

This Standard provides a revised control definition and application guidance. Therefore, this IFRS supersedes IAS 27 (2008) and SIC 12, Consolidation - Special Purpose Entities, and is applicable to all investees.

Early application is permitted. Entities that apply this IFRS earlier must disclose that fact and apply IFRS 11, IFRS 12, IAS 27 (as amended in 2011), and IAS 28 (as amended in 2011) simultaneously.

An entity is not required to make adjustments to the accounting for its involvement with an investee when entities are previously consolidated or unconsolidated in accordance with IAS 27 (2008), SIC 12, and this IFRS, continue to be consolidated or continue not to be consolidated.

When application of this IFRS results in an investor consolidating an investee that is a business not previously consolidated, the investor:

- 1) must determine the date when the investor obtained control of that investee on the basis of the requirements of this IFRS; and
- 2) will assess the assets, liabilities, and no-controlling interests as if acquisition accounting had been applied from that date.

If (2) is impracticable, then the deemed acquisition date must be the beginning of the earliest period for which retroactive application is practicable, which may be the current period.

The standard is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This standard has not been adopted by the Board.

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y) IFRS 11: Joint Arrangements

This standard was issued in May 2011 with an effective date of January 1, 2013. The Standard addresses the inconsistencies in the accounting for joint arrangements and requires a single accounting treatment for interests in jointly controlled entities. This standard has not been adopted by the Board.

The objective of this IFRS is to establish principles for joint arrangements disclosures.

It supersedes IAS 31, Interest in Joint Ventures and SIC 13, Jointly Controlled Entities, nonmonetary contributions by ventures.

z) IFRS 12: Disclosure of Interests in Other Entities

This Standard was issued in May 2011 with an effective date of January 1, 2013. This Standard requires an entity to disclose information that enables users of financial statements to evaluate the nature and financial effects of its investments in other entities, including joint arrangements, associates, structured entities, and “off balance” activities. This standard has not been adopted by the Board.

aa) IFRS 13: Fair Value Measurement

This Standard was issued in May 2011 and clarifies the definition of fair value, establishes a single procedure for measuring fair value, and defines the measurements and applications required or permitted by IFRSs. This Standard is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. This Standard has not been adopted by CONASSIF.

This standard is applicable for periods beginning on or after January 1, 2013. This IFRS defines “fair value”, establishes a single conceptual framework in IFRS to measure fair value and requires disclosures about the measurement of fair value. This IFRS applies to other IFRSs that allow measurement at fair value.

bb) IFRS 15: Revenue from Contracts with Customers

International Financial Reporting standard IFRS 15, Revenue derived from contracts and clients established principles for presentation of useful information to users of the financial statements about the nature, amount, schedule and uncertainty of revenue and cash flows arising from an entity's contracts with their customers.

IFRS 15 applies to annual periods that begin in or after January 1, 2018. Earlier application is permitted.

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IFRS 15 supersedes:

- a. IAS 11: Construction contracts,
- b. IAS 18: Revenue,
- c. IFRIC 13: Customer loyalty programs,
- d. IFRIC 15: Agreements for the construction of real estate,
- e. IFRIC 18: Transfer of assets from customers, and
- f. SIC-31 Revenue —Barter transactions involving advertising services.

Revenue is important information for users of financial statements, assessing the situation and financial performance of an entity. However, the above requirements for the recognition of revenue on International Financial Reporting Standards (IFRS) differ from accounting principles generally accepted in the United States of America (US GAAP) and both requirements set needed improvement. The requirements for recognition of revenue from previous IFRS provided limited guidance and, therefore, the two main standards for the recognition of revenue, IAS 18 and IAS 11, could be difficult to apply to complex transactions. Furthermore, IAS 18 provided limited guidance on many important issues of revenue, such as accounting of agreements with multiple elements. Instead, US GAAP comprised broader aspects in the recognition of revenue, along with numerous requirements for industries or specific transactions, which resulted in a different accounting of similar transactions.

Therefore, the International Accounting Standards Board (IASB) and the issuer of national standards in the United States, the Financial Accounting Standards Board (FASB), initiated a joint project to clarify the principles for recognition of revenue and to develop a common standard for revenue to IFRS and US GAAP that:

- a. Eliminates inconsistencies and weaknesses of the above requirements on revenue.
- b. Provides a solid framework to address the problems of revenue.
- c. Improves comparability of recognition practices of revenue between entities, industries, jurisdictions, and capital market.
- d. Provides more useful information to users of the financial statements through disclosure requirements improved, and
- e. Simplify the preparation of the financial statements, reducing the number of requirements that and entity must refer.

The basic principle of IFRS 15 is that an entity recognizes revenue to represent transfer of goods or services committed to customers in exchange for an amount that reflects the consideration to which the entity expects to be entitled to exchange of such goods or services. An entity recognizes revenue in accordance with the basic principle by applying the following steps:



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- a. Step 1: Identify the contract (contracts) with the client - a contract is an agreement between two or more parties that creates enforceable rights and obligations. The requirements of IFRS 15 apply to each contract which has been agreed with a client and meets the specified criteria. In some cases, IFRS 15, requires an entity to combine contracts and accounted for as one. IFRS 15 also provides requirements for the posting of contracts changes.
- b. Step 2: Identify performance obligations in the contract - a contract includes commitments to transfer goods or services to a customer. If goods or services are different, commitments and performance obligation are accounted for separately. A good or service different if the client can take advantage of the good or service itself or with other resource that are available to the customer and commitment of the institution to transfer the good or service to the customer is separately recognizable from other contract commitments.
- c. Step 3: To determine the transaction Price - the Price of transaction is the amount of consideration in a contract to which an entity expects to be entitled in exchange for the transfer of goods or services involved with the client. The transaction price can be a fixed amount of the consideration for the client but may sometimes include a variable compensation in cash or other form. The transaction price is also adjusted by the value of money over time if the contract includes a significant financing component, as well as any consideration payable to the customer. If the consideration is variable, an entity shall estimate the amount of the consideration to which it shall be entitled to the exchange for goods or services involved. The estimated variable compensation amount is included in the price of transaction only to the extent that is highly likely that a significant reversal of the amount of income recognized accumulated to not occur when the uncertainty associated with the variable compensation was subsequently resolved.
- d. Step 4: Allocate the transaction price between performance obligations of the contract -an entity usually allocates the transaction price to each performance obligation based on the relative independent selling prices of each good or service involved in the contract. If a selling price is not observable independently, an entity shall estimate. Sometimes, the transaction price includes a discount or a variable amount of the consideration that relates entirely to a part of the contract. The requirements specify when an entity assigns the discount or variable consideration to one or more, but not all the performance obligations (different goods or services) of the contract.

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- e. Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation -an entity recognizes the revenue when (or as) it satisfies a performance obligation by transferring goods or services committed to the client (which is when the customer obtains control of that good or service). The amount of income recognized is the amount allocated to the performance obligation satisfied. A performance obligation can be met at any given time (usually for commitments to serve the customer). For performance obligations that are satisfied overtime, an entity recognizes revenue over time by selecting an appropriate method to measure the progress of the entity toward complete satisfaction of that performance obligation.

cc) IFRIC 10: Interim Financial Reporting and Impairment

This statement prohibits the reversal of an impairment loss recognized in a previous interim period, regarding to surplus value, investment in an equity instrument or a financial asset booked at cost, IFRIC 10 applies to surplus value, investment in equity instruments and financial assets booked at cost starting from the date the first time the criteria of measurement of NIC 36 and NIC 39 was applied (i.e. January 1, 2004). The Board allows reversal of estimates.

dd) IFRIC 12: Services Concession Arrangements

This interpretation provides guidelines for the posting of public service concession arrangements to a private operator. This interpretation applies both to:

- The infrastructure that the operator builds or purchases from a third party. to be used for the provision of services agreements; and
- Existing infrastructure to which the operator has access in order to provide the services established in the agreement.

IFRIC 12 is mandatory for financial statements as of July 1. 2009. This IFRIC has not been adopted by the Board.

ee) IFRIC 13: Customer Loyalty Programs

This interpretation provides guidance to the entity that grants credits -awards to its customers for loyalty as part of sales transaction which, subject to compliance with any additional condition established as a requirement, the customer can redeem in the future in form of goods, free services or discounts. IFRIC 13 is mandatory for financial statements starting from January 1, 2011. This IFRIC has not been adopted by the Board.

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ff) IFRIC 14, IAS 19: Limit on Defined Benefit Asset, Minimum Funding Requirement and their Interaction

This interpretation applies to benefits defined for former employees and other long-term benefits for employees. It also considers requirements to maintain a minimum level of funding to any requirement to fund a benefits plan for former employees or other long-term benefits plans. It also covers the situation where a minimum level of funding may result in a liability. The IFRIC 14 is mandatory for financial statements starting from January 1, 2011, which retrospective application. This IFRIC has not been adopted by the Board.

gg) IFRIC 16: Hedges of a Net Investment in a Foreign Operation

This interpretation allows an entity using step considerations to choose an accounting policy that covers the risk of exchange rate, in order to determine the accumulative adjustment of currency conversion that is reclassified in results for the disposal of net investments in abroad business, as if the direct method has been used. The IFRIC 16 is mandatory for financial statements as of July 1, 2009. The Board has not adopted his standard.

hh) IFRIC 17: Distribution of Non-Cash Assets to Owners

This interpretation provides guidance for accounting dividends payable distributed using non-cash assets, at the beginning and the end of the period.

If an entity declares dividends to be distributed through non- cash assets, after the closing of a reported period but before the financial statements are authorized to be issued, it will disclose:

- a) The nature of the asset to be distributed.
- b) The carrying amount of the asset at the closing date; and
- c) If the fair values are determined, wholly or partially, by reference to price quotes published in an active market or are estimated using a valuation method, as well as the method used to determine the fair value and the assumptions applied when using a valuation method.

IFRIC 17 is mandatory for financial statements starting from July 1, 2009. This standard has not been adopted by the Board; its application is prospective; a retrospective application is not permitted.

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ii) IFRIC 18: Transfer of Assets from Customers

This interpretation offers guidance for accounting of transfers of property, plant and equipment for entities receiving such transfer from customers, as well as those agreements in which an entity receives cash from customers and must use the cash amount only for construction or purchasing property, plant and equipment. This IFRIC is mandatory for financial statements from July 1, 2009. This IFRIC has not been adopted by the Board.

jj) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

This interpretation provides guidance for accounting renegotiated terms of financial liability and give rise to the entity that issues the equity instruments to extinguish the financial liability totally or in part, IFRIC 19 is mandatory for financial statements starting from July 1, 2010. This IFRIC has not been adopted by the Board.

kk) IFRIC 17: Distributions of Non- Cash Assets to Owners

This IFRIC is mandatory for financial statements from July 1, 2009. Its application is prospective; a retrospective application is not permitted.

ll) IFRIC 18: Transfer of Assets from Customers

This interpretation is mandatory for financial statements form July 1, 2009. This interpretation is applicable to entities that transfer assets to other entities for goods or services of different nature, for which an income has to be recognized due to the difference in value.

mm) IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is mandatory for financial statements starting from July 1, 2010.

nn) IFRIC 21: Levies

This interpretation addresses the accounting of a liability to pay a levy if that liability is within IAS 37. It also addresses the accounting of a liability to pay a levy where the amount and maturity are true.

This interpretation does not address the accounting of cost arising from the recognition of a liability to pay a levy. Entities should apply other standards to decide whether the recognition of a liability to pay a tax results in an asset or an expense.

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The event that triggers the obligation and results in a liability to pay a levy is the activity that produces the levy payment, as established by law. For example, if the activity that results in the levy payment is to generate an income from ordinary activities in this period, and the calculation of this tax is based on income from ordinary activities that took place in an earlier period, the event that results in the obligation of the levy is the income generation in the current period. Generating revenue in the previous periods is necessary, but not sufficient to create a present obligation.

An entity does not have an implied obligation to pay a levy to be generated by future period operation; as a result, the entity is economically compelled to continue operating in that future period.

The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy to be generated by operations in future periods.

The liability to pay a levy is recognized progressively if the event results in the obligation over a period (for example, if the activity that generates the payment of the tax occurs as established by law, over a period). For example, if the event that results in the obligation is the generation of a regular income for activities over a period, the corresponding liability is recognized as the entity produces that income.

An entity shall apply this interpretation for annual periods beginning on or after January 1, 2014.

oo) Amendments to Existing Standards:

Employee Benefits

(Amendment to IAS19)

This standard is modified to recognize the discount rate to be used corresponding with local currency bonds.

The transition date is for annual periods that begin in or after January 1, 2017; it may be applied in advance and disclose that fact. Any application adjustment must be made against retained earnings at the beginning of the period.

This standard is for application in the periods that begin in or after January 1, 2013. It includes changes referring to the benefit plans defined for which it previously required that the re measurement of the actuarial appraisals were recognized in the income statement or in other integral results. The new IAS 19 will require changes in the measurements to be included in other integral results and the cost of services and net interest to be included in the income statement.

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Sales or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

Loss of Control

When a controlling company loses control of a subsidiary, the controlling company:

- a. Will derecognize assets and liabilities of former subsidiary of the consolidated statement of financial position.
- b. Recognizes an investment retained in the former subsidiary at fair value and subsequently accounted for this investment and the amount owed by or to the former subsidiary thereof, in accordance with relevant IFRS's. This retained interest at fair value is measured again, as described in paragraph B98 (b) (iii) and B99(a). The value measured again, if applicable, at the date when control is lost, is regarded as the fair value on initial recognition of financial assets, in accordance with IFRS 9 or cost on initial recognition of an investment in an associate or joint venture.
- c. Will recognize gain or loss associated with the loss of control of previous controlling company as specified in paragraphs B98 to B99A.

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

Issued in September 2014, it amended paragraphs 25 and 26 and added paragraph B99A. An entity will apply such amendments in a prospective manner to transactions that take places in annual periods starting as of January 1, 2017. An early application is allowed. If an entity applied the amendments earlier, this must be disclosed.

Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS11)

This IFRS requires the acquirer of an interest in a joint venture whose activity is a business, as defined in IFRS Business Combinations, to apply all the principles on accounting for business combinations of IFRS 3 and other IFRS, except those in conflict with the guidelines of this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRS for business combinations.

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Accounting for Acquisition of Interests in Joint Operations (Amendments to IFRS 11), issued in May 2014, amended the heading after paragraph B33 and added paragraphs.

If an entity applies these amendments but doesn't apply IFRS 9, the reference in these amendments to IFRS 9 shall be read as a reference to IAS 39, Financial Instruments: Recognition and Measurement. Amendments to IFRS 11, May 2014. An entity shall apply those amendments prospectively for annual periods that begin in or after January 1, 2017. Earlier application is permitted. If an entity applies these amendments for a period beginning before, it will disclose that fact.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

Separate financial statements are those presented by a controller (inverter with control on a subsidiary) or an investor with joint control in an investee or significant influence over it. Subject to the requirements of this standard, an entity may choose to account for its investment in subsidiaries, joint ventures and associates at cost, in accordance with IFRS 9, Financial Instruments, or using the equity method as described in IAS 28, Investments in associates and joint ventures.

When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures, and associates:

- a. at cost, or
- b. in accordance with IFRS 9; or
- c. Using the equity method as described in IAS 28.

An entity shall apply the same accounting for each category of investment. The accounted investments are registered at cost or using the equity method in accordance with IFRS 5, non-current assets held for sale and discontinued operations, in cases where they are classified as held for sale or for distribution (or included in a group of assets for disposal that are classified as held for sale or for distribution). Under these circumstances, the measurement of investments accounted is not amended in accordance with IFRS 9.

The equity method in separate financial statements (Amendments to IAS 27), issued in August, 2014, amended paragraphs 4 to 7, 10, 11 B and 12. An entity shall apply those amendments for annual periods beginning on or after January 1, 2017, retrospectively, in accordance with IAS 8, Accounting Policies, changes in Accounting Estimates and Errors. Earlier application is permitted. If an entity applies these amendments for a period beginning before, it will disclose that fact.

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Notes to the unaudited separate financial statements

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

This document established amendments to IAS 39, Financial Instruments: Recognition and Measurement. These amendments result from proposals of the standard project 2013/2: Novation of Derivatives and Continuation of Hedge Accounting, and the corresponding responses received (Proposed Amendments to IAS 39 and IFRS 9) was published in February 2013.

IASB has amended IAS 39 to discontinue exempting the hedge accounting when the novation of a derivative designed as a hedging instrument meets certain conditions. A similar exception will be included in IFRS 9, Financial Instruments.

It is effective from annual periods beginning on or after January 1, 2014.

Disclosure of the recoverable amount of non- financial assets

This document establishes the amendments to IAS 36, Impairment of Assets, The amendments result from proposal of the standard project 2013/1, Disclosure of the recoverable amount of non- financial assets and corresponding response received (Proposed Amendments to IAS 36) that was published in January 2013.

In May 2013, paragraphs 130 and 134, and the heading of paragraph 138, were amended. An entity shall apply those amendments retroactively to annual periods beginning on or after January 1, 2014. Early application is permitted. An entity shall not apply those amendments to periods (including comparative periods) in which IFRS 13 does not apply.

The changes made in this document along the disclose requirements to IAS 36 with the original intention of the IASB. For the same reason, the IASB also amended IAS 36 to require amount of assets that present impairment is based on fair value less cost of disposal, consistent with the disclosure requirements for impairment assets presented in U.S. GAAP.

(38) Figures for 2020

As of September 30, 2020, financial statement figures have not been reclassified for comparison with those of 2019, per modifications to the Chart of Accounts and SUGEF Directive 30-18: “Financial Information Regulations” approved by the National Supervisory Board of the Finance System.



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Transitory I of the Regulation requires entities to reestablish comparability in the financial statements; however, for many of the items it is not operationally practicable to establish such comparability; and when comparability is possible, it represents a high cost in its preparation for financial entities, thus being necessary to modify the transitory of the changes in order to exempt entities from such comparability in the presentation of the statements of financial position, of comprehensive income and of changes in equity, both for the intermediate and annual audited information for the 2020 period. The comparability will be reestablished as of the period 2021.

(39) Relevant and subsequent events

As of September 2020, there are relevant and subsequent events to disclose as follows:

Transfer of charges and observations

On November 21, 2014, Provisional Regularization Proposal No. 1-10-017-14-124-031-03 was notified, which informs the Bank of the differences found in tax bases and tax assessments, as well as the Legal facts and basis. The total tax debt is of ¢3.003.887.889 and interest of ¢1.079.849.565 corresponding to fiscal periods 2010-2011-2012 and 2013.

The Bank of Costa Rica expressed partial disagreement with the proposed regularization and awaits notification of the administrative act of liquidation, with concrete expression of the Legal facts and basis that motivate the differences in tax bases and assessments.

On January 14, 2015, according to the last Proposed Regularization, the Tax authorities notified the Bank, in respect of the items presented, together constituting a tax contingency, which from the point of view of legal risk would mean their eventual confirmation of payment obligation or dismissal in the future. For making the corresponding provision, the total of the adjustments confirmed for tax plus interest and proportional penalties to January 8, 2015, date of the liquidation, is the amount of ¢5.116.774.222.

On August 30, 2016, Provisional Regularization Proposal No. 1-10-071-16-085-041-03 was notified, which informs the bank of the differences found in tax bases and tax assessments, as well as the Legal facts and basis. The total tax debt is of ¢9.932.739.485 and interest of ¢2.145.983.333 corresponding to fiscal period 2014.

The Bank expressed partial disagreement with the proposed regulation and is expecting the administrative liquidation to be notified, containing concrete facts and legal principles motivating the differences in the tax bases and tax fees.

On January 2, 2019, the Bank proceeds with the payment of ¢14,138,113,417 to the Ministry of Finance, corresponding to the amounts determined in the audit procedures for the periods from 2010 to 2014, under the tax amnesty, as indicated in Transitory XXIV of the Law on Strengthening of Public Finances No. 9635.

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In the month of June, the first advance payment of the Income Tax was due, however the administration of the Bank of Costa Rica decided to avail itself of the benefit offered by the Tax Relief Law No.9830, due to COVID-19, according to the which, as disclosed in article 2 of the Law and article 8 of its Regulations, regarding to discard partial payments to be made in the months of April, May and June 2020 for a single time.

Thus, the Bank's first partial payment was not made, in order to minimize the economic effects of the pandemic in the institution.

The amounts of the payment are presented as follows:

<u>Period</u>		<u>Income tax</u>	<u>Penalties</u>	<u>Total</u>
2010	¢	679.647.526	33.982.376	713.629.902
2011		1.059.187.613	52.959.381	1.112.146.994
2012		987.937.205	98.793.721	1.086.730.926
2013		272.356.511	27.235.651	299.592.162
2014		9.932.739.485	993.273.948	10.926.013.433
	¢	<u><u>12.931.868.340</u></u>	<u><u>1.206.245.077</u></u>	<u><u>14.138.113.417</u></u>

Merger by Absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica

1. Absorption of Banco Crédito Agrícola de Cartago by Banco de Costa Rica

As of September 10, 2018, through Law 9605 “Merger by absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica”, the merger of Banco Crédito Agrícola de Cartago (Bancrédito) and Banco de Costa Rica (BCR) is decreed, by which the latter will absorb the former and continue its legal being as the prevailing entity.

The operative merger will be effective within a maximum term of sixty business days after the law comes into force, so that within the aforementioned term Bancrédito must carry out, by means of whoever is exercising its administration, the pertinent administrative or operative tasks to consolidate the merger and absorption process, including the settlement of the remaining personnel of the banking entity.

Consequently, as a result of this merger, Banco Crédito Agrícola de Cartago will be ceased as a legal entity, and its net assets will be transferred to Banco de Costa Rica, of which it will be a full party as of the effective date of this law.

In the event that at the time of the merger Bancrédito's equity is negative or less than the amount required for Bancrédito to comply with a minimum capital adequacy equal to the

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BCR's capital adequacy indicator at the effective date of merger, with a minimum limit of ten percent (10%), this difference will be contributed by the Government to Banco de Costa Rica; the amount of the contribution during the 2018 period was of ¢18,907,432,694.

This contribution must be made immediately on the effective date of the merger, which will be made by decreasing the liability that Bancrédito has with the Ministry of Finance for deposits, first charging interest and then the principal of the debt held by Bancrédito with the Ministry of Finance.

The shares of the subsidiaries of the absorbed Bank will be understood as transferred in full right to Banco de Costa Rica, which will assess keeping them in operation, for sale or settlement, all within the maximum and non-extendable period of eighteen subsequent calendar months upon the entry into force of this law, within which period it will be authorized to act as the sole shareholder of such companies.

For all legal purposes, Banco de Costa Rica is authorized to act as the owner of one hundred percent (100%) of the shares of Bancrédito's subsidiaries, even though the Bank already owns an Insurance Broker, so that BCR will determine the future of the company.

Upon expiration of the term, the company may not remain in force independently.

2. Integration of the assets of the extinct Banco Crédito Agrícola de Cartago into the equity of Banco de Costa Rica

The equity of Banco Crédito Agrícola de Cartago (Bancrédito), that is, all of its assets, liabilities, contracts, contingent and debit memoranda accounts, and, in general, all of its rights and obligations, all of the subjective legal situations existing at the effective date of this law and of which it is the holder, will be fully integrated into the legal-equity sphere of Banco de Costa Rica (BCR) and, consequently, will be reflected in the balance sheet from which the merger provided by this law is effective, as provided in Article 1.

The equity of Banco Crédito Agrícola de Cartago will increase the capital stock of Banco de Costa Rica, except in the portion corresponding to the resources of the Financing Development Fund (FOFIDE) managed by the absorbed bank, which will also become part of the equity of Banco de Costa Rica, but added to the equity resource of FOFIDE, so that they are managed by Banco de Costa Rica, pursuant to Law No. 8634, Development Banking System, of April 23 of 2008.

The methodology that will be followed in recording of the merger will be based on carrying values.

Banco de Costa Rica will assume the legal position held by Banco Crédito Agrícola de Cartago with respect to any pre-existing legal relationship.

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The National Registry is authorized to, within the term provided in article 1 of this law, proceeds with the change of the owner's name in favor of Banco de Costa Rica, as well as in the position of creditor held by Banco Crédito Agrícola de Cartago.

If by means of what is indicated in the previous paragraph, Banco de Costa Rica must assume the contractual position of fiduciary with respect to any trust in which it is already a trustee, then the trustor must substitute the fiduciary, for which it is fully authorized, in order to comply with the provisions of article 656 of Law No. 3284, Code of Commerce, of April 30, 1964.

3. About the employees and the directors of Banco Crédito Agrícola de Cartago

The appointments of all the members of the managing bodies of Banco Crédito Agrícola de Cartago (Bancrédito) and its subsidiaries, and of all the management positions of the absorbed Bank and its subsidiaries, which were in force as of this date, shall be settled in full right from the effect date of this law.

The settlement of its personnel will be carried out by Banco Crédito Agrícola de Cartago, through the Interventoría or by someone who is in the exercise of its administration at the time of this law entering into force. The settlement procedure will be carried out in accordance with the legal system applicable to Bancrédito's labor relations upon the entry into force of this law and must be completed within the term established by article 1 of this law.

Any labor contingency that arises after the labor settlement is carried out, according to a final judicial decision, will be processed before and assumed by the Government.

This law does not affect in any way the possible responsibilities, of any nature, that may arise due to the exercise of the position by Bancrédito's staff, including those derived from the actions of the members of the managing bodies of this Bank or its subsidiaries, as well as those who held managing positions, without prejudice to the application of the limitation periods that may correspond.

4. Other liabilities or supervening contingencies

The eventual tax contingencies derived from the income tax that Banco Crédito Agrícola de Cartago (Bancrédito) and its subsidiaries had at the merger date will not be transferred to Banco de Costa Rica (BCR) but will be assumed by the Government.

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In the event that subsequent to the merger, other contingent liabilities or contingencies arise according to final judicial resolution, including collection of professional fees of lawyers or experts for judicial proceedings or pending administrative proceedings, or of any other type that were not recorded in the balance sheet of Banco Crédito Agrícola de Cartago or its subsidiaries, must be claimed and processed directly before the Government.

With respect to possible obligations or losses of any kind, which in the future may arise from the different risks inherent to the trusts, due to the fault or negligence of Bancrédito as trustee and which must be assumed with the trustee's equity, be processed before and claimed directly to the Government, in addition to what is required in article 642 of Law No. 3284, Commercial Code, of April 30, 1964.

With respect to compliance with Law No. 8204, “Law on Narcotic Drugs, Psychotropic Substances, Drugs of Unauthorized Use, Related Activities, Money Laundering and Financing of Terrorism”, dated December 26, 2001, in case penalties or sanctions are originated, derived from customers that come from Bancrédito, and that at the time of the merger those risks have not been identified in spite of the due diligence performed by BCR, this Bank is exonerated from all responsibility for the actions by Bancrédito during the five years prior to the effective date of the merger.

5. Settlement of the closed Collective Capitalization Fund

The management and operation of the closed Collective Capitalization Fund of Banco Crédito Agrícola de Cartago (Bancrédito) is transferred to Banco de Costa Rica (BCR). If upon settlement of the Fund there is a positive balance of resources, these will become part of BCR's equity

In case the Fund loses its sustainability in the future that originates an actuarial deficit for the payment of pensions, such deficit will be assumed by BCR.

6. Transitory dispositions

Transitory I- Related to the indicators mentioned below and included in the Regulation for Judging the Economic-Financial Situation of the Supervised Entities (Agreement SUGEF 24-00), or related to the regulations and indicators that may be issued or substituted in the future, the General Superintendence of Financial Entities (SUGEF) is authorized to exclude within its assessments the effects that on such indicators may be derived from the credit portfolio that Banco de Costa Rica (BCR) has received from Banco Crédito Agrícola de Cartago (Bancrédito), by means of the merger operated by the provisions of this law. The foregoing for a term of three years, counted from the monthly closing date near to the day on which the merger provided for in this law is effective. The indicators that will be excluded are the following:

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- a) Portfolio with delinquency greater than ninety days on the direct portfolio.
- b) Expected loss on loan portfolio over the total portfolio.

In addition, that same exception will also apply to any other regulatory indicator, of any kind, that may be adversely affected during that three-year period, as a result of the merger.

Transitory II- Banco Crédito Agrícola de Cartago (Bancrédito) will transfer, within the term established in Article 1 of this law, the active portfolio that is impaired in the risk categories D and E, settled accounts – insolvent -, whose effects should be reduced from the value of Bancrédito's equity that will be delivered to Banco de Costa Rica (BCR), in order to apply the scope of article 1 of this law.

As a result of this transfer, the portfolio indicating arrears greater than 90 days over the direct portfolio must be collected; the indicator must represent a result equal to or lower than that presented at the effective date of merger by BCR, with a maximum limit of three percent (3%), so that the results of BCR will not deteriorate.

Once the Portfolio in categories D and E is transferred, if this indicator in Bancrédito is greater than the one presented by BCR, the additional amount of the impaired portfolio (from higher to lower impairment) must be transferred to liquidated - insolvent accounts with delinquency greater than ninety days, so that the indicator is at least equal to that of BCR, whose effects must be reduced from the value of Bancrédito's equity that will be delivered to Banco de Costa Rica, in order to apply the scope of Article 1 of this Law.

#### Payment Agreement of Merger by Absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica

The Bank and the Ministry of Finance signed an agreement that will allow compliance with Law 9605 “Merger by Absorption of Banco Crédito Agrícola de Cartago and the Bank of Costa Rica”, where the latter will pay the Costa Rican Government the amount of US\$50.000.000 and ¢100.000.000.000, plus accrued interest as of the subscription date, amounting to US\$1.104.639 and ¢5.928.991.551. To cancel these amounts, on November 20, the Bank transferred in advance the amount of US\$50.000.000 and interest accrued on the debt.

In addition, the Bank will issue four term deposit certificates in favor of the Ministry of Finance, the first in the amount of ¢30.052.510.000 due on March 29, 2019. In addition, three certificates of term deposits will be issued in favor of the Ministry of Finance, the first two for ¢23.000.000.000 for a one and two year term, respectively, and the last one for ¢24.000.000.000 with a maturity of three years, for a total of ¢70.000.000.000. These three certificates with an issuance date of December 10, 2018.

The structuring of these certificates was carried out in accordance with the provisions of Law No. 9605 of September 12, 2018.

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#### Dissolution of Bancrédito Sociedad Agencia de Seguros S.A.

On December 17, 2018, in Extraordinary General Shareholders' Meeting No. 29-18, the General Board of Banco de Costa Rica, by law, agrees to dissolve Bancrédito Sociedad de Seguros S.A., in accordance with the article two hundred and one, subsection b) of the Commercial Code and agree to appoint a liquidator to proceed with the distribution of the company's existing assets within the term of the law and according to the inventory made.

#### Properties investment

The Bank determines that in order to safeguard the institutional permanence and not affect the operation of the Consejo Nacional de Producción, to sign a contract to modify the leasing area, so that the new leasing area contemplates the current one, such as the one that is being used in precarious conditions. Due to the foregoing, as of January 31, 2018, the amounts corresponding to the property and building that were kept in other assets were reclassified to Properties Investments.

#### Financial Information Regulation

Through articles 6 and 5 of the minutes of the sessions 1442-2018 and 1443-2018, both held on September 11, 2018, the CONASSIF approved the Financial Reporting Regulation, which comes in effect on January 1, 2020.

The Regulation aims to regulate the application of International Financial Reporting Standards (IFRS) and their interpretations (SIC and IFRIC), issued by the International Accounting Standards Board (IASB), considering prudential or regulatory accounting treatments, as well as the definition of a specific treatment or methodology when IFRS proposes two or more application alternatives.

As of September 2020, multiple regulations have been issued with the aim of mitigating the impact of COVID-19 related to the banking and financial sector, as follows:

#### **The CONASSIFF approved:**

- a. Extend to September 30, 2021 the option to renegotiate the agreed conditions of the credits up to twice in a 24-month period, without these adjustments having negative effects on the debtors' file at the Credit Information Center (CIC).
- b. This measure covers loans of more than ₡100 million and those equal to or less than this amount that already have two adjustments in the last 24 months.
- c. Loans of 100 million colones or less that to date have had two readjustments within the last 24 months, may readapt their operation once more during the period ending June 30, 2021, without qualifying as a special operation, and

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- d. This measure allows a third payment readjustment to clients who have already had two arrangements; that the renegotiations be for any operation regardless of the balance and suspend, for one year, the countercyclical provisions (an amount of the profits that should be kept month by month), to all financial entities.
- e. The National Council for the Supervision of the Financial System approved on Monday, March 23, new mitigation measures against the negative effects of the coronavirus on the economy of Costa Rica. These measures are complementary to those already taken previously and have the objective of granting access to credit measures to the affected debtors.
- f. Measures regarding the Payment Capacity: It was agreed to maintain the level of payment capacity that the companies or individuals had prior to the effects of COVID-19. This measure aims to facilitate the readjustments and / or refinancing of the credits. The aforementioned measure is temporary until March 31, 2021.
- g. Measures with respect to Credit Policies and Procedures: A measure that will facilitate the procedures for both the granting of new credits and the readjustments and / or refinancing thereof, where financial entities may omit, in their credit policies and procedures, the information that they ask on a daily basis to their clients to verify their payment ability. The aforementioned provision will be in force until March 31, 2021.
- h. Measures regarding the Suspension of Classification of Irregularities - Sanitation Plan: It was agreed to suspend, for one year, the provision that classifies a financial entity as “type 2 irregularity”, when the institution presents losses for six months or more, in the last 12 months. When a financial institution presents losses for six months or more, in the last 12 months, SUGEF immediately orders the implementation of a sanitation plan to counter the aforementioned situation. It is important to note that SUGEF must amend the parameters for determining liquidity indicators. This measure will be in force for 12-months period.
- i. Measures regarding the granting of periods of grace: In accordance with Directive 075-H issued by the Government, it was agreed to allow financial entities to establish grace periods for clients, without the payment of interest or principal. It is important to highlight that this measure will be implemented under the criteria of each financial entity, the term of the grace periods will be determined by each financial entity.
- j. Measures regarding the de-accumulation of countercyclical provisions: It was agreed to allow financial entities to establish processes of de-accumulation of counter-cyclical provisions and classify them as income. These estimates correspond to the money that financial institutions reserve to protect themselves from economic cycle risks and / or the effects of portfolio defaults.



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**General Superintendence of Financial Entities:**

- a. By Resolution SGF-0971-2 dated March 20, 2020, SUGEF agreed to reduce the “M” factor in the countercyclical allowance formula with the aim of adding opportunity and effectiveness to the dynamics of the countercyclical allowance model.
- b. It was agreed to establish in 0,00% the value of the “M” factor referred to in Article 6 of the SUGEF 19-16 Agreement.
- c. This minimum required percentage level of countercyclical allowance (“M”) will apply from the monthly close of March 2020 and will be subject to revision during the year 2020.
- d. The measure will allow financial entities to allocate resources to grant credits, which would ordinarily be foreseen for the reserves required by law.

**Central Bank of Costa Rica**

The Board of Directors of the Central Bank of Costa Rica approved the following reforms:

- a. It reduced the Monetary Policy Rate (TPM) by 100 basis points, to locate it at 1.25% annually, as of March 17, 2020.
- b. In addition, it agreed to reduce the gross interest rate on overnight deposits (DON) to 0.01% per year as of March 17, 2020, and those of the Permanent Credit Facility and the Permanent Market Deposit Facility Integrated Liquidity at 2.00% and 0.01%, respectively; and
- c. Modify the control of the Minimum Legal Reserve from 97.5% to a minimum of 90%: “during each and every day of the reserve control period, the balance at the end of the day of deposits in the Central Bank must not be less than 90% of the minimum legal reserve requiring two previous natural fortnights “. This measure aims to free up a little daily liquidity in the country's commercial banks; however, it is important to note that the required percentages of the Minimum Legal Reserve have not changed (15% in US dollars and 12% in colones).
- d. With the aim of positively impacting the liquidity markets, as of March 24, the Central Bank will participate in the liquidity markets of the National Stock Market (overnight market and repurchase market) as an investor in US dollars. In addition, it will participate as an investor in colones in the markets with one-day and up to thirty-days terms.

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- e. The Central Bank has informed its intention of participating in the Integrated Liquidity Market (the banks' liquidity market) during the next days, with investor positions in a one-day term.
- f. Through resolution JD-5922/09, the Board of Directors of the Central Bank agreed to modify the Regulations for credit operations of last instance in national currency of the Central Bank of Costa Rica, related to the reforms necessary for credit applications to be approved through a technological platform.
- g. The decisions are based on the analysis of the expected trajectory for inflation and its determinants, the risks in that forecast, and the lag with which the monetary policy measures take effect.
- h. These monetary policy measures are intended to continue to press down interest rates in the market, and thereby ease the financial situation of companies and households in the country.

(40) Date of authorization for issuance of the financial statements

The issuance of the separate financial statements was authorized on October 27, 2020 by the General Management of the Bank.

SUGEF can require modifications to the financial statements after the authorization for issuance date.