



Banco de Costa Rica and Subsidiaries

Consolidated Financial Statements

December 31, 2020

Table of Contentes

Consolidated Financial Statements

Consolidated Statement of Financial Position	-6-
Consolidated Statement of Comprehensive Income	-8-
Consolidated Statement of Changes in Equity	-9-
Consolidated Statement of Cash Flows	-10-

Notes to the Financial Statements

(1) Summary of operations and significant accounting policies	- 11 -
(a) Operations	- 11 -
(b) Accounting policies for the preparation of consolidated financial statements	- 14 -
(c) Investment in other companies	- 15 -
(d) Foreign currency	- 16 -
(e) Basis for the recognition of the consolidated financial statements.....	- 18 -
(f) Financial instruments	- 18 -
(g) Cash and cash equivalents	- 21 -
(h) Investments in financial instruments	- 21 -
(i) Loans portfolio.....	- 24 -
(j) Allowance for doubtful accounts	- 25 -
(k) Securities sold under repurchase agreements	- 32 -
(l) Accounting for interest receivable	- 32 -
(m) Other receivables	- 33 -
(o) Offsetting	- 34 -
(p) Property, furniture, and equipment	- 34 -
(q) Deferred charges	- 36 -
(r) Intangible assets	- 36 -
(s) Impairment of assets	- 36 -
(t) Obligations with the public	- 37 -
(u) Accounts payable and other payables	- 37 -
(v) Provisions.....	- 37 -
(w) Legal reserve.....	- 39 -
(x) Revaluation surplus.....	- 39 -
(y) Use of estimates	- 39 -
(z) Recognition of main types of income and expenses	- 40 -
(aa) Income tax.....	- 40 -
(bb) BICSA - Financial leases	- 41 -
(cc) Pension and retirement plans for employees from Banco de Costa Rica	- 41 -

(dd) Profit sharing.....	- 42 -
(ff) Development Credit Fund.....	- 43 -
(gg) BICSA - Trusts	- 44 -
(hh) Fiscal year	- 44 -
(2) Collateralized or restricted assets.....	- 44 -
(3) Balances and transactions with related parties.....	- 45 -
(4) Cash and cash equivalents	- 46 -
(5) Investments in financial instruments	- 47 -
(6) Loan portfolio	- 50 -
a) Current loans, Past due loans and Judicial Collection	- 50 -
b) Loan portfolio by activity	- 51 -
c) Current loans.....	- 51 -
d) Loan portfolio by arrears	- 53 -
e) Past due loans.....	- 53 -
f) Interest receivable on loan portfolio	- 54 -
g) Allowance for loan impairment.....	- 54 -
h) Syndicated loans	- 54 -
(7) Held-for-sale assets, net	- 55 -
(8) Interest in other companies' capital	- 56 -
(9) Property, furniture, and equipment	- 59 -
(10) Other assets	- 60 -
(a) Other deferred charges.....	- 60 -
(b) Intangible Assets.....	- 60 -
(c) Other assets	- 61 -
(11) Demand obligations with the public	- 62 -
(12) Term and demand obligations with the public and entities	- 62 -
(13) Other obligations with the public.....	- 63 -
(14) Obligations with entities and the Central Bank of Costa Rica.....	- 64 -
(a) Maturities of loans payable.....	- 65 -
(15) Income tax.....	- 66 -
(16) Provisions.....	- 70 -
(17) Other miscellaneous accounts payable	- 72 -
(18) Equity	- 72 -
(19) Contingent accounts.....	- 77 -
(20) Trusts.....	- 79 -
(21) Other debit memoranda accounts.....	- 80 -
(22) Current and term brokerage operations and portfolio management operations.....	- 81 -
(23) Investment fund management agreements.....	- 84 -
(24) Pension fund management agreements.....	- 85 -
(25) Contract for custody and storage of goods and merchandise	- 87 -
(26) Financial income on investments in financial instruments	- 88 -
(27) Financial income on loan portfolio	- 88 -
(28) Expenses from obligations with the public.....	- 89 -
Financial expenses from obligations with the public are as follows:	- 89 -

(29) Expenses from allowances for impairment of loan portfolio.....	- 89 -
(30) Income from recovery of assets and decreases in allowances and provisions.....	- 90 -
(31) Income from service fees and commissions	- 91 -
(32) Income from interests in other companies	- 91 -
(33) Administrative expenses	- 92 -
(34) Legal profit sharing	- 93 -
(35) Components of other comprehensive income.....	- 93 -
(36) Operating leases	- 94 -
(37) Fair value of financial instruments	- 94 -
(38) Segments	- 95 -
(39) Risk management.....	- 98 -
(40) Financial information of the Development Financing Fund.....	- 133 -
(41) Situation of the Development Credit Fund	- 139 -
(42) Merger of Banco Crédito Agrícola de Cartago.....	- 146 -
(43) Transition to the International Financing Reporting Standards (IFRSs)	- 148 -
(44) Figures for 2019.....	- 156 -
(45) Relevant and subsequent events.....	- 156 -
(46) Authorization date for issuance of the financial statements	- 172 -



Crowe Horwath CR, S.A.
2442 Avenida 2
Apdo. 7108-1000
San José, Costa Rica
Tel + (506) 2221 4657
Fax + (506) 2233 8072
www.crowe.cr

Independent Auditor's Report

To the Board of Directors of
Banco de Costa Rica Financial Conglomerate and subsidiaries
General Superintendence of Financial Entities

Opinion

We have audited the consolidated financial statements of Banco de Costa Rica Financial Conglomerate and subsidiaries (the Conglomerate), which comprise the consolidated balance sheet as of December 31, 2020, and the consolidated income statement, consolidated statement of changes in equity and of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Financial Conglomerate as of December 31, 2020, its financial performance and its consolidated cash flows for the one-year period ended on that date, in compliance with the directives issued by the National Financial System Oversight Board (CONASSIF) and the General Superintendence of Financial Entities (SUGEF).

Basis for Opinion

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

Emphasis matters – Comparability

The consolidated financial statements of Banco de Costa Rica Financial Conglomerate and subsidiaries are not presented comparative because transitory I of the Financial Information Regulation approved by CONASSIF in force as of January 1, 2020, provides that *“the presentation of the interim financial statements and audited annuals of 2020 are not required in a comparative way”*.

Basis of accounting

We draw attention to note 1 of the consolidated financial statements which describes the basis of accounting. The accompanying consolidated financial statements have been prepared by the management of Banco de Costa Rica in compliance with the directives issued by the National Financial System Oversight Board (CONASSIF) and the General Superintendence of Financial Entities (SUGEF). As a result, the consolidated financial statements could be not suitable for other purposes.

Emphasis matters – Conditions reported by COVID-19

In note 45 to the consolidated financial statements, disclosures related to the state of emergency due to the COVID-19 pandemic and how the Bank has managed such condition, are presented.

Key Audit Matters

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

a) Loan portfolio

Key audit matter

The main asset of the Bank is the loan portfolio, which accounts for 61.11% of total assets and concentrates the main factors of credit risk management related to: recovery of outstanding balances, concentration of balances, diversification of products, among others; these factors affect the recoverable value of the asset.

The Bank estimates the loan portfolio based on the SUGEF-1-05 Agreement "General Standards for Classification and Qualification of Debtors", and SUGEF 19-16 "Regulations for the determination and recording of Countercyclical estimates". At December 31, 2020, the amount of these estimates is of ¢134,225,242,689 which represents 2.13% of the total assets.

In minute of meeting SGF-2584-2020 of August 4, 2020 SUGEF has required credit management plans because of payment arrangements and credit risk caused by the health emergency of COVID-19, including recognition of additional allowances.

Audit response

Our audit procedures included selecting a sample of credit operations to which a balances confirmation process has been applied. We also carried out an assessment of the allowance for doubtful accounts of the portfolio by verifying compliance with the functional areas that maintain controls and operational processes whose objective is to comply with the requirements of the SUGEF 1-05 agreement.

We selected a sample of files from operations from the loan portfolio in order to verify the internal control procedures established by the Bank, as well as the filing regulations established by the regulator. We verified and reviewed the auxiliary records of the loan portfolio and their estimates.

The Bank's management considers that the allowance for doubtful accounts is adequate to absorb any losses in which it may incur in the recovery of that portfolio. The regulator reviews it periodically as an integral part of its examinations and may require modifications based on the evaluation of available information.

Notes 1.j, 6 and 45 to the consolidated financial statements include the disclosures regarding the respective treatment of the allowance for bad loans.

b) Investment in securities

Key audit matter

Investments are classified and accounted for in accordance with IFRS 9, Financial Instruments, including the recognition of expected losses, which requires a methodology that considers judgments and the use of assumptions by management.

Fair value estimates are made at a specific date based on market information and on information of financial instruments and are provided by an authorized pricing provider. Fair value does not reflect premiums or discounts that may result from the offer for sale of particular financial instruments at a given date.

The valuations are the best possible estimate of the market; by their nature they involve uncertainties and elements of significant judgment. Any change in assumptions may affect the valuation.

As of December 31, 2020, investments represent 22.58% of the total assets.

Audit Response

Among other procedures, we performed a process of balance confirmation on the total investment portfolio, as well as recalculations of the market valuation of investments, using the values obtained from a price provider, as well as the amortization of premiums and discounts.

We checked the consistency of the price source used to value the investment portfolio.

We assessed whether the classification of investments is adjusted to the contractual cash flows and we evaluated the design and application of the methodology used to determine the expected loss, by inspecting the methodology approved by the Board of Directors.

Notes 1.h, 5 and 45 include the disclosures of the Bank on accounting treatment and other aspects related to the investment portfolio.

c) Obligations with the public

Key audit matters

Obligations with the public are demand and term obligations that are agreed with the clients according to specific conditions as to their use, term and interest rates.

At December 31, 2020, obligations with the public represent 78.74% of the total liabilities.

Audit Response

Among other procedures, we carried out a process of balance confirmation and analytical procedures to verify the cycles and interest rates.

Notes 11, 12 and 13 include the disclosures on accounting treatment and other aspects relating to obligations with the public.

Responsibilities of Management and of those responsible for corporate governance of the Conglomerate for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the directives issued by the National Financial System Oversight Board and the General Superintendence of Financial Entities, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those in charge of governance are responsible for overseeing the Conglomerate's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Conglomerate's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Conglomerate's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Conglomerate to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves reasonable presentation.
- Obtain sufficient and adequate evidence regarding the financial information of the entities or business activities within the Conglomerate to express an opinion on the consolidated financial statements. We are responsible for the administration, supervision and execution of the audit of the Conglomerate. We are solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Fabián Zamora Azofeifa.



San José, Costa Rica

March 24, 2021

Opinion signed by
Fabián Zamora Azofeifa N° 2186
Póliza 0116 FIG 7 due on 30-set-2021
Legal stamp 6663 €1.000
Attached to the original



BANCO DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the period ended December 31, 2020
(In colones without cents)

	<u>Note</u>	<u>December 2020</u>
ASSETS		
Availabilities	4	¢ 803,047,856,879
Cash		119,287,622,423
Central Bank of Costa Rica		557,130,153,527
Local financial entities		406,513,723
Foreign financial entities		124,787,806,670
Notes payable on demand		933,476,898
Restricted cash and cash equivalents		502,245,670
Accounts and interest receivable		37,968
Investment in financial instruments	5	1,422,225,936,729
At fair value profit or loss		129,268,183,986
At fair value other comprehensive income		1,158,570,957,948
At amortized cost		116,422,768,236
Interest receivable		17,964,479,288
(Allowance for impairment)		(452,729)
Loan portfolio	6.b	3,737,850,095,270
Current loans	6.c	3,611,713,806,444
Past due loans	6.c	191,127,466,768
Loans in legal collection	6.c	47,306,508,117
(Deferred income loan portfolio)		(17,174,110,485)
Interest receivable	6.f	39,101,667,115
(Allowance for impairment)	6.g	(134,225,242,689)
Accounts and commissions receivable		15,288,959,387
Commissions receivable		3,914,017,767
Accounts receivable from stock transactions		153,829,125
Accounts receivable for transactions with related parties		588,117,964
Deferred income tax and income tax receivable	15	3,089,935,829
Other accounts receivable		18,228,391,664
(Allowance for impairment)		(10,685,332,962)
Foreclosed assets	7	65,018,758,323
Assets and securities acquired as recovery of loans		153,175,635,799
Other foreclosed assets		3,135,050,908
(Allowance for impairment and per legal requirement)		(91,291,928,384)
Interest in other companies' capital, net	8	601,781,698
Property, furniture and equipment, net	9	145,466,631,990
Property investments		6,441,924,521
Other assets		103,914,142,815
Deferred charges		11,020,765,141
Intangible assets, net	10	16,550,642,887
Other assets		76,342,734,787
TOTAL ASSETS	¢	<u>6,299,856,087,612</u>

BANCO DE COSTA RICA AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 For the period ended December 31,2020
 (In colones without cents)

	Note	December 2020
<u>LIABILITIES AND EQUITY</u>		
LIABILITIES		
Obligations with the public	¢	4,435,948,768,842
Demand obligations	11	2,631,125,295,136
Term obligations	12	1,765,488,529,808
Other obligations with the public	13	22,851,373,427
Financial charges payable		16,483,570,471
Obligations with the Central Bank of Costa Rica	14	2,500,208,320
Term obligations		2,500,208,320
Obligations with entities	14	996,185,319,919
Demand obligations	12	57,024,035,642
Term obligations	12	934,562,223,076
Financial charges payable		4,599,061,201
Accounts payable and provisions		161,122,349,138
Provisions	16	60,354,073,834
Accounts payable for stock transactions		125,916,857
Deferred income tax	15	8,261,935,568
Other sundry accounts payable	17	92,356,990,157
Financial charges payable		23,432,722
Other liabilities		38,146,815,175
Deferred income		1,248,422,950
Other liabilities		36,898,392,225
TOTAL LIABILITIES		<u>5,633,903,461,394</u>
EQUITY		
Capital stock	18.a	181,409,990,601
Paid up capital		181,409,990,601
Adjustments to equity - Other comprehensive income		55,958,372,952
Equity reserves		283,820,516,011
Accrued earnings from previous periods		13,464,953,148
Profit of current period		25,612,643,802
Equity of the Development Financing Fund		33,309,728,460
Minority interest	8	72,376,421,244
TOTAL EQUITY		<u>665,952,626,218</u>
TOTAL LIABILITIES AND EQUITY		<u>6,299,856,087,612</u>
DEBIT CONTINGENT ACCOUNTS	19	<u>435,596,846,933</u>
TRUST ASSETS	20	<u>972,668,061,666</u>
TRUST LIABILITIES		<u>379,680,643,674</u>
TRUST EQUITY		<u>592,987,417,992</u>
OTHER DEBIT MEMORANDA ACCOUNTS	21	<u>¢ 24,615,785,229,468</u>
Own debit memoranda accounts		15,416,275,687,503
Third party debit memoranda accounts		2,351,292,555,491
Own debit memoranda accounts for custodial activities		753,477,291,918
Third party debit memoranda accounts for custodial activities		6,094,739,694,556

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 AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the period ended December 31, 2020
(In colones without cents)

	Note	December 2020
Financial income		
For availabilities		€ 643,491,687
For investments in financial instruments	26	65,340,925,702
For loan portfolio	27	285,339,829,891
For financial leases	27	4,715,447,025
For gain on exchange differences and Development Units	1-d.iii	6,483,435,880
For profit from financial instruments at fair value through profit or loss		3,047,375,976
For profit from financial instruments at fair value through other comprehensive income		8,459,000,409
For other financial income		4,223,143,505
Total financial income		378,252,650,075
Financial expenses		
For obligations with the public	28	138,792,405,308
For obligations with the Central Bank of Costa Rica		53,437,583
For obligations with financial and non-financial entities		28,090,543,084
For loss from financial instruments at fair value through profit or loss		5,184,283,190
For loss from financial instruments at fair value through other comprehensive income		72,052,151
For other financial expenses		53,941,864
Total financial expenses		172,246,663,180
Allowance for impairment of assets	29	58,852,415,501
For assets recovery and decrease in allowance and provisions	30	33,406,121,438
FINANCIAL INCOME		180,559,692,832
Other operating income		
For service fees	31	108,219,025,001
For foreclosed assets		30,531,204,751
For profit from interests in other companies capital	32	225,016,450
For foreign currency exchange and arbitrations		22,668,417,235
For other income from related parties		314,650,831
For other operating income		22,039,317,473
Total other operating income		183,997,631,741
Other operating expenses		
For service fees		23,446,838,113
For foreclosed assets		42,690,892,902
For loss from capital investments in other companies		119,534,816
For provisions		4,523,788,212
For exchange and arbitration, foreign currency		2,696,330,814
For other expenses with related parties		1,323,183,866
For other operating expenses		41,947,593,767
Total other operating expenses		116,748,162,490
GROSS OPERATING INCOME		247,809,162,083
Administrative expenses		
Personnel expenses		113,333,737,257
Other administrative expenses		78,736,014,233
Total administrative expenses	33	192,069,751,490
OPERATING INCOME, NET OF INCOME TAX AND STATUTORY ALLOCATIONS		55,739,410,593
Income tax	15	18,927,088,406
Deferred income tax	15	652,540,952
Decrease in income tax		1,102,569,376
Legal profit sharing	34	10,819,260,713
RESULT OF THE PERIOD		26,443,089,898
Result of the period attributed to minority interest		830,446,096
RESULTS OF THE PERIOD ATTRIBUTED TO THE FINANCIAL CONGLOMERATE		25,612,643,802
OTHER COMPREHENSIVE INCOME , NET OF TAX		
Adjustment for valuation of investments at fair value through other comprehensive income		2,658,479,321
Reclassification of unrealized profit to the income statement		(5,870,863,781)
Reclassification of impairment to the income statement		1,412,840,538
Adjustment for valuation of restricted financial instruments, net of income tax		(22,735,894)
Other		11,947,048,084
OTHER COMPREHENSIVE INCOME OF THE PERIOD, NET OF TAX	35	10,124,768,268
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		36,567,858,166
Comprehensive income attributed to minority interest		6,237,363,764
COMPREHENSIVE INCOME ATTRIBUTED TO THE FINANCIAL CONGLOMERATE		€ 30,330,494,402

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 AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended December 31, 2020

(In colones without cents)

Note	Adjustments to equity					Equity reserves	Accrued earnings from previous periods	Equity of the Development Financing Fund		Minority interest	Total equity
	Capital Stock	Surplus for revaluation of property, furniture and equipment	Adjustment for valuation of investments at fair value through other comprehensive income	Adjustment for conversion of financial statements	Total adjustments to equity			Development Financing Fund	Minority interest		
Balance as of December 31, 2019	€	181,409,990,601	37,774,830,067	(1,343,439,781)	14,809,132,066	51,240,522,352	264,398,962,426	38,043,832,889	29,753,932,255	66,139,057,480	630,986,298,003
Impairment recognition – Investments at fair value through other comprehensive income from previous periods		0	0	0	0	0	(1,601,529,951)	0	0	0	(1,601,529,951)
Balance as of January 1, 2020	18	181,409,990,601	37,774,830,067	(1,343,439,781)	14,809,132,066	51,240,522,352	264,398,962,426	36,442,302,938	29,753,932,255	66,139,057,480	629,384,768,052
Allocation of legal reserve		0	0	0	0	0	19,421,553,585	(19,421,553,585)	0	0	0
Allocation of the Development Financing Fund		0	0	0	0	0	0	(3,555,796,205)	3,555,796,205	0	0
Balance as of December 31, 2020		181,409,990,601	37,774,830,067	(1,343,439,781)	14,809,132,066	51,240,522,352	283,820,516,011	13,464,953,148	33,309,728,460	66,139,057,480	629,384,768,052
Other comprehensive income		0	0	(1,375,143,923)	6,092,994,523	4,717,850,600	0	25,612,643,802	0	6,237,363,764	36,567,858,166
Other total comprehensive income		0	0	(1,375,143,923)	6,092,994,523	4,717,850,600	0	25,612,643,802	0	6,237,363,764	36,567,858,166
Balance as of December 31, 2020	18	181,409,990,601	37,774,830,067	(2,718,583,704)	20,902,126,589	55,958,372,952	283,820,516,011	39,077,596,950	33,309,728,460	72,376,421,244	665,952,626,218
Attributed to minority interest		0	0	0	0	0	0	0	0	72,376,421,244	72,376,421,244
Attributed to the financial conglomerate	€	181,409,990,601	37,774,830,067	(2,718,583,704)	20,902,126,589	55,958,372,952	283,820,516,011	39,077,596,950	33,309,728,460	0	593,576,204,974

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 AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the period ended December 31, 2020
(In colones without cents)

	Note	December 2020
Cash flows from operating activities		
Income of the period	€	25,612,643,802
Items applied to results not requiring cash outlays		(80,649,292,651)
Increase or (decrease) for		
Allowance for impairment or devaluation of financial instruments		5,621,642,841
Allowance for impairment of loan portfolio		48,916,849,794
Allowance for impairment and default of other accounts receivable		4,313,922,866
Allowance for impairment of assets in lieu of payment		24,786,848,229
Income from reversal of allowance for impairment or devaluation of investments		(4,177,728,903)
Income from reversal of allowance for impairment of loan portfolio		(10,375,781,696)
Income from reversal of allowance for impairment and default of accounts receivable		(2,209,203,340)
Income from reversal of allowance for impairment of assets in lieu of payment		(29,609,811,572)
Income or loss for sale of assets received in lieu of payment and of property, furniture and equipment		13,484,035,925
Interest in net profit of other companies		(105,481,634)
Depreciation		13,680,659,157
Amortization		13,544,474,919
Provision for social benefits		275,265,477
Provisions for pending lawsuits		4,207,994,950
Other provisions		43,348,554
Income from provisions		(4,644,623,709)
Income tax		18,927,088,406
Deferred income tax		652,540,952
Decrease in income tax		(1,102,569,376)
Profit sharing		10,819,260,713
Interest for obligations with the public		138,792,405,308
Interest for obligations with financial entities		28,143,980,667
Income from availabilities		(643,491,687)
Interest from investment in financial instruments		(65,340,925,702)
Income from loan portfolio		(285,339,829,891)
Net profit or loss from exchange differences and Development Units		(10,233,604,518)
Minority interest in net profit of subsidiaries		830,446,096
Adjustments for conversion of financial statements of the entity abroad		6,092,994,523
Cash flows from operating activities		49,121,812,485
Net variation in assets (increase) or decrease		
Increase in financial instruments - at fair value through profit or loss		(9,695,555,290)
Increase in financial instruments - at fair value through comprehensive income		(3,797,326,087,057)
Decrease in financial instruments - at fair value through comprehensive income		3,712,441,205,614
Loan portfolio		87,077,541,722
Accounts and commissions receivable		(7,449,968,451)
Available-for-sale assets		19,472,343,877
Interest receivable for financial instruments		10,025,019,727
Interest receivable for loan portfolio		21,065,217,863
Other assets		13,512,094,480
Net variations in liabilities, increase or (decrease)		29,642,163,213
Obligations with the public		141,515,682,195
Obligations with the Central Bank of Costa Rica and other entities		(30,519,957,394)
Obligations for accounts and commissions payable and provisions		(31,620,669,605)
Interest payable for obligations with the public		(22,171,424,029)
Interest payable for obligations with the BCCR and other entities		(8,208,082,238)
Interest payable for accounts and commissions payable and provisions		(14,488,317)
Other liabilities		(19,338,897,399)
Interests paid		(145,830,321,581)
Collected interest		297,094,531,871
Paid income tax		(22,005,278,260)
Net cash flows provided by operating activities		152,986,258,879
Cash flow from investment activities		
Increase in financial instruments (except held-for-trading)		(4,135,470,722,858)
Decrease in financial instruments (except held-for-trading)		4,061,804,704,622
Acquisition of property, furniture and equipment		(15,861,115,477)
Decrease for withdrawal and transfer of property, furniture and equipment		164,611,784
Acquisition of intangibles		(9,808,341,740)
Decrease for withdrawal and transfer of intangibles		330,910,218
Interest in other companies		(12,688,964)
Cash flows (used for) provided by investment activities		(98,852,642,415)
Net increase (decrease) in cash and cash equivalents		54,133,616,464
Cash and cash equivalents at the beginning of the year		858,178,114,618
Effect on changes in exchange rates on cash		28,289,228,281
Cash and cash equivalents at the end of the year	4 €	940,600,959,363

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 AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(1) Summary of operations and significant accounting policies

(a) Operations

Banco de Costa Rica (hereinafter, 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 and its subsidiaries located in Costa Rica is www.bancobcr.com

The Bank is mainly dedicated to extending loans and granting bid and performance bonds; issuing deposit certificates; 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 December 31, 2020, the Bank has a total 169 branches distributed across the national territory, has in operation 676 ATM's and has 3.645 employees.

The consolidated financial statements and notes thereto are expressed in colones (¢), the legal tender of the Republic of Costa Rica and functional currency.

The Bank fully owns 100% of the following subsidiaries:

BCR Valores, S.A. - Puesto de Bolsa, was organized as a corporation in February 1999 under the laws of the Republic of Costa Rica. Its main activity is securities trading. As of December 31, 2020, BCR Valores had 70 employees, and is regulated by the General Superintendence of Securities (SUGEVAL).

BCR Sociedad Administradora de Fondos de Inversion, S.A. was organized as a corporation in July 1999 under the laws of the Republic of Costa Rica. Its main activity is investment fund management. As of December 31, 2020, it had 101 employees and is regulated by the General Superintendence of Securities (SUGEVAL).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A. 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. As of December 31, 2020, it had 97, and is regulated by the Superintendence of Pensions (SUPEN).

BCR Sociedad Corredora de Seguros, S.A. was organized as a corporation in February 2009 under the laws of the Republic of Costa Rica. Its main activity is insurance underwriting. As of December 31, 2020, it had 86 employees and it is regulated by the General Superintendence of Insurance (SUGESE).

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. This entity has not started operations. As of December 31, 2020, the number of employees is 67. As of December 31, 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. As of December 31, 2020, Depósito Agrícola de Cartago, S.A. had 36 employees.

As of April 30, 2020, Bancrédito Sociedad Agencia de Seguros, S.A., organized in March 2009 under the laws of the Republic of Costa Rica, was settled. Its main activity was the insurance underwriting.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank also 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, 50th 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 shares are owned by Banco Nacional de Costa Rica. As of December 31, 2020, BICSA has 241 employees.

In the Republic of Panama, banks are regulated by the Superintendence of Banks of Panama through Executive Order No. 9 of February 26, 1998, and by the resolutions and directives issued by that entity. Among other aspects, that law regulates authorization of banking licenses, minimum capital and liquidity requirements, general oversight, and procedures for credit risk and market risk management, money laundering prevention, and bank takeover and liquidation. Banks are also subject to an audit at least every two (2) years by auditors from the Superintendence of Banks to verify compliance with Executive Order No. 9 and Law No. 42 on Money Laundering Prevention.

BICSA wholly owns subsidiaries Arrendadora Internacional, S.A. and Bicsa Capital S.A., engaged in providing funding through financial leases and purchase of invoices and brokerage services, respectively.

The Branch in Miami has been operating since September 1, 1983 under an international banking license granted by the office of the State Comptroller and Banking Commissioner of the State of Florida, United States of America.

Regulatory Matters of Banco Internacional de Costa Rica, S.A. and Subsidiary

Miami Branch

The Branch is subject to regulations and periodic oversight by certain federal and state agencies. For such purposes, the Branch has an agreement with federal and state regulatory authorities, which requires the Branch to continually maintain and report certain minimum capital ratios and maturity parameters, e.g. the Branch must maintain a minimum ratio of eligible assets to third party liabilities of 110%, on a daily basis.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Panama Branch

Executive Order No. 9 of February 26, 1998 requires that banks operating under a general license maintain capital funds for an amount greater than or equal to 8% of risk-weighted assets, including off-balance sheet operations. This law also limits the amount that can be loaned to a single economic group to a maximum of 25% of capital funds. It also limits the amount that can be loaned to related parties to a maximum of 5% and 10% of capital funds, depending on the guarantee provided by the borrower, up to a cumulative maximum of 25% of BICSA's capital funds.

(b) Accounting policies for the preparation of consolidated financial statements

The financial statements have been prepared 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).

Through communication C.N.S. 116-07 from December 18, 2007, the National Financial System Supervisory Board issued a reform to the regulations named "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 issued 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).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

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 activities. 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 translation 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 account "Adjustment for valuation of investments in other companies".

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank and subsidiaries must analyze and assess 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 Management of each entity; it will transmit the proposal to the Board of Directors and subsequently send 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.

The consolidated financial statements include the financial figures of the Bank and of the following subsidiaries:

Name	Ownership Percentage
BCR Valores, S.A. – Puesto de Bolsa	100%
BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A.	100%
BCR Sociedad Administradora de Fondos de Inversión, S.A.	100%
Banco Internacional de Costa Rica, S.A. and subsidiary (Arrendadora Internacional, S.A., which is 100% owned)	51%
BCR Sociedad Corredora de Seguros, S.A.	100%
Banprocesa S.R.L.	100%
Depósito Agrícola de Cartago, S.A. and subsidiary	100%

All significant intercompany balances and transactions have been eliminated on consolidation.

(d) Foreign currency

i. Foreign currency transactions

Assets and liabilities held in foreign currency are converted to colones at the exchange rate prevailing on the date of the consolidated statement of financial position. Transactions in foreign currency during the year are converted at the foreign exchange rate prevailing on the date of the transaction. Conversion gains or losses are presented in the consolidated 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:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- 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, 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 December 31, 2020, monetary assets and liabilities denominated in U.S. dollars were valued at the exchange rate of ¢617.30 for US\$1.00.

Valuation in colones of monetary assets and liabilities in foreign currency for the period ended December 31, 2020 gave rise to foreign exchange losses of ¢853.653.297.140, and gains of ¢860.136.733.021, which are presented net in the consolidated income statement.

Additionally, valuation of other assets and other liabilities gave rise to gains and losses, respectively, which are booked in "Other operating income" and "Other operating expenses", respectively. For the period ended December 31, 2020, valuation of other assets gave rise to losses of ¢1.099.588.980, and valuation of other liabilities gave rise to losses of ¢1.474.999.372.

iii. Financial statements of foreign subsidiaries (BICSA)

The financial statements of BICSA are presented in U.S. dollars, which is its functional currency. The translation of the financial statements to colones was carried out as follows:

- Assets and liabilities have been converted at the closing exchange rate.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- Income and expenses have been converted at the average exchange rates in effect during each year.
- The equity is measured in terms of historical cost and has been converted using the exchange rate on the transaction date.

As result of BCR's interest in BICSA, net profits in the amount of ₡864.341.486 arose for the year ended December 31, 2020, which are disclosed in the consolidated income statement.

As result of the conversions for the period ended on December 31, 2020, gains arose for exchange rate differences in the amount of ₡6.092.994.523, shown in the equity section, within the account "Currency translation adjustment of the financial statements".

(e) Basis for the recognition of the consolidated financial statements

The consolidated financial statements have been prepared based on fair value for assets through profit or loss and through other comprehensive income. 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 through profit or loss are those that the Bank keeps with the purpose of generating profits in the short term.

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Assets at fair value through other comprehensive income are financial assets that are not held for trading purposes, originated by the Bank, or held to maturity. Assets at fair value through other comprehensive income include certain debt securities.

In accordance with accounting standards issued by CONASSIF, as of January 1, 2008, investments in financial instruments made by regulated entities are to be classified as available-for-sale. Own investments in open investment funds are to be classified as held-for-trading financial assets. Own investments in closed investment funds are to be classified as available-for-sale.

Entities regulated by SUGEVAL, SUGEF, SUPEN, and SUGESE may classify other investments as held-for-trading financial instruments, provided there is an express statement of intent to trade them within 90 days from the acquisition date.

(ii) Recognition

The Bank recognizes assets at fair value through other comprehensive income on the date on which the Bank becomes a party to the contractual provisions 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 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-held-for-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.

Article 17 of the Accounting Regulations applicable to entities regulated by SUGEF, SUGEVAL, SUPEN and SUGESE and to Non-financial Issuers prescribes available-for-sale classification for investments in financial instruments by regulated entities.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(iv) Fair value measurement principles

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

(v) Profits and losses on subsequent measurement

Profits and losses arising from a change in the fair value of available-for-sale assets are recognized directly in equity until the investment is considered to be impaired, at which time the loss is recognized in the consolidated 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 consolidated income statement.

(vi) De-recognition

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- 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.
- 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: Information to be disclosed.

(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, with the exception of BICSA whose period is ninety days or less.

(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. (PIPCA).

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

In accordance with the liquidity objectives of the Bank's investment portfolio, it will not correspond, in accordance with the Entity's business model, to carry out future investments in closed funds; however, current investments in these instruments must be classified in compliance with the provisions of the standard.

On the other hand, in accordance with the provisions of Law 9274, the Investment Management Policy of the Development Credit Fund, as well as 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 Funds investment portfolio.

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

• 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.

Investments in securities of BICSA

The fair value of BICSA's investment in securities that are quoted in active markets are based on recent purchase prices. If a security is not quoted in an active market, its fair value is determined by using a valuation technique, such as the use of recent transactions, the analysis of discounted cash flows, and other valuation techniques commonly used by market participants. Shares for which fair values cannot be reliably determined are measured at cost less impairment losses.

(i) Loans portfolio

Banco de Costa Rica - 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, purchase 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. Further, the Bank follows the policy of suspending interest accruals on loans with principal or interest that are more than 180 days past due.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

BICSA -Loan portfolio

Loans receivable are non-derivate financial assets with fixed or determinable payments that are not quoted in an active market and usually originate in providing resources for a loan. Loans are reported at their outstanding principal pending collection, less not generated interest and commissions and allowance for loan losses. Not earned commissions and interest are recognized as income over the life of the loan using the effective interest method.

(j) Allowance for doubtful accounts

Banco de Costa Rica - Loan portfolio

The loan portfolio is valued in accordance with provisions established in SUGEF Directive 1-05 "Regulations for Borrower Classification", which was approved by CONASSIF on November 24, 2005, published in the Official Journal "La Gaceta" No. 238 on Friday, March 9, 2005, and effective as of 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) are classified by credit risk. From May 23, 2020, 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. This classification takes into account the following considerations:

- Creditworthiness, which includes an analysis of projected cash flows, an analysis of financial position, considers the 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 is responsible of calculating the historical payment behavior level for borrowers reported by entities during the previous month.
- Arrears

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- Pursuant to the Directive, collateral may be used to mitigate risk for purposes of calculating the allowance for loan impairment. The market value and its updates should be considered and adjusted at least once annually. Further, 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 as follows:

Risk Category	Arrears	Historical Payment Behavior	Creditworthiness
A1	30 days or less	Level 1	Level 1
A2	30 days or less	Level 2	Level 1
B1	60 days or less	Level 1	Level 1 or Level 2
B2	60 days or less	Level 2	Level 1 or Level 2
C1	90 days or less	Level 1	Level 1, 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:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

<u>Risk Category</u>	<u>Classification Criteria</u>
1	a. Debtors up to date in 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. a. Debtors with delinquency of more than 30 days and up to 90 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.
3	c. Debtors with delinquency less than 60 days with the entity, that have been subject to at least one restructuring 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 restructuring 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.

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 Rating 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 Transitory XII.

The generic allowance must be at least 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 credits.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 less 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 borrowers that don't generate cash flows in foreign currency, 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 borrowers that don't generate cash flows in foreign currency, 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:

Risk category	Specific allowance percentage on the uncovered portion of the loan	Specific allowance percentage on the covered portion of the loan
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%

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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:

Arrears	Specific allowance percentage on the uncovered portion of the loan	Specific allowance percentage on the covered portion of the loan	Credworthiness (Borrowers Group 1)	Credworthiness (Borrowers Group 2)
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 3 or Level 4	Level 1 or Level 2

As of December 1, 2020, as an exception for risk category E, allowance for loans of a debtor whose historical payment behavior is at Level 3, must be calculated as follows:

Delinquency at the end of the month	Specific allowance percentage on the uncovered portion of the loan	Specific allowance percentage on the covered portion of the loan	Credworthiness (Borrowers Group 1)	Credworthiness (Borrowers Group 2)
Up to date	5%	0,5%	Level 1	Level 1
30 days or less	10%	0,5%	Level 1	Level 1
60 days or less	25%	0,5%	Level 1 o Level 2	Level 1 o Level 2
90 days or less	50%	0,5%	Level 1 o Level 2 o Level 3 o Level 4	Level 1 o Level 2 o Level 3 o Level 4
More than 90 days	100%	0,5%	Level 1 o Level 2 o Level 3 o Level 4	Level 1 o Level 2 o Level 3 o Level 4

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

From July 2016, pursuant to SUGEF Directive 19-16, Agreement, "Regulation for the determination and recording 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%.

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, the validity of the amendment to article 12 of this Regulation and until December 31, 2021, according to transitory XXII, the balance of allowance recorded for debtors in Risk Category E with CPH3 may not be reduced because of this modification. It is only allowed that the decrease amounts be reallocated to support increases in specific allowances for debtors reclassified to risk categories C1, C2, D and E according to articles 10 and 11 of SUGEF Agreement 1-05.

As of December 31, 2020, the total allowance of the loan portfolio reflected in the accounting records amounts to ¢119,006,689,665, of which ¢32,426,041,150 are additional recorded allowances, including ¢18,000,000,000 that correspond to renegotiated operations as a result of COVID -19.

As of December 31, 2020, increases in the allowance for loan impairment resulting from the minimum allowance are included in the accounting records in compliance with article 17 of SUGEF Directive 1-05 "Regulation for Rating Debtors", prior authorization from SUGEF in compliance with article 10 of IRNBS.

As of December 31, 2020, management considers the allowance to be sufficient to absorb any potential losses that could be incurred on recovery of the portfolio.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Accounts and interest receivable - Banco de Costa Rica

To qualify the risk of accounts and interest receivable unrelated to loan operations, the Bank considers the arrears based on ranges established for other assets in SUGEF Directive 1-05 "Regulations for Rating Debtors", approved by CONASSIF.

<u>Arrears</u>	<u>Allowance</u>
30 days or les	2%
60 days or les	10%
90 days or les	50%
120 days or les	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 Debtor Rating Regulations to quantify the credit risk of debtors and constitute the corresponding estimates, will remain in force and the entities will continue calculating the estimates according to the methodology set forth in the Regulations.

BICSA- Allowance for loan impairment

BICSA assesses whether there is any objective evidence of impairment of a loan or loan portfolio. The amount of losses on certain loans during the period is recognized as provision expense in the operational result and increases a provision account for loan losses. When a loan is determined to be uncollectible, the unrecoverable amount is reduced of that provision account. Subsequent recoveries of previously written-off loans increase the provision account.

Impairment losses are determined using two methods, which indicate whether there is objective evidence of impairment, i.e. individually for loans that are individually significant and collectively for loans that are not individually significant.

Impairment losses on individually assessed loans are determined based on an exposure assessment on a case-by-case basis. If it is determined that there is no objective evidence of impairment for an individually significant loan, this loan is included in a group of loans with similar characteristics and is collectively assessed for impairment. The impairment loss is calculated by comparing the present value of expected future cash flows, discounted at the loans current interest rate or the fair value of the loans collateral less the selling costs, to its current carrying value. The amount of any loss is recognized as a provision for losses in the consolidated income statement. The carrying value of impaired loans is reduced using an allowance account for losses on loans.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

For the purposes of a collective assessment of impairment, BICSA uses statistical models of historical trends for probability of default, opportunity for recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that actual losses are higher or lower than those suggested by historical trends. Default and loss ratios as well as the expected term of future recoveries are regularly compared with actual outcomes to ensure they remain appropriate.

If in a subsequent period the amount of the impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through an adjustment to the provision account. The amount of the reversal is recognized in the consolidated income statement.

Management considers the allowance for loan impairment to be sufficient. The regulatory authority periodically reviews the allowance for loan impairment as an integral part of its audits. The regulatory authority may require that additional allowances are recognized based on its evaluation of information available as of the date of the audits.

As of December 31, 2020, the allowance disclosed in the accounting records amounts to ₡134.224.712.484.

BICSA -Accounts and interest receivable

To assess the allowance for accounts and interest receivable, BICSA applies the criteria mentioned in the section on the allowance for loan impairment.

(k) Securities sold under repurchase agreements

The Bank carries out transactions of securities sales under repurchase agreements at future dates and agreed prices. The obligation to repurchase sold securities is reflected as a liability in the consolidated balance sheet and disclosed 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 consolidated income statement, and accrued interest payable in the consolidated balance sheet.

(l) Accounting for 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. Interest receivable on those loans is recorded when collected. BICSA does not suspend the recognition.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(m) Other receivables

The recoverability of these accounts is assessed by applying criteria like those established by SUGEF for the loan portfolio. If an account is not recovered within 120 days from the due date or from the date of its accounting record, an allowance is created for 100% of the outstanding balance. Items with no specified due date are considered enforceable immediately. BICSA applies the criteria mentioned in the section on the allowance for loan impairment.

(n) Held-for-sale assets

Held-for-sale assets are assets owned by the Bank for realization or sale. Included in this account are assets acquired as payment in kind, assets adjudicated in judicial auctions, assets acquired to be leased under finance and operating leases, goods produced for sale, idle property and equipment, and other held-for-sale assets.

Held-for-sale 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 registered in the accounting records for a realizable 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 expenses related to held-for-sale assets are to be recognized in the period incurred.

The net realizable value of an asset should be used as its market value, which should be 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 resources invested and use them for its business activities. For all held-for-assets, the Bank should have reports from the appraisers which 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.

The supervised entities must record an allowance equivalent to their carrying amount for assets withdrawn from use and for held-for-sale assets that were not sold or leased, either through operating or financial leases, within a two-year period, counted from the date of its acquisition or production.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Pursuant to article 20-b of SUGEF Directive 1-05, "Regulations for Rating Debtors", the Bank is required to record an allowance for disposed assets and for realizable 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-forty-eighth of the value of such assets each month until the allowance is equivalent to 100% of the carrying amount, without exception. The recording of the allowance shall begin at closing date of the month in which the asset was i) acquired, ii) produced for sale or lease, or iii) disposed of.

(o) Offsetting

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

(p) Property, furniture, and equipment

(i) *Own assets*

Property, furniture, and equipment are 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.

(ii) *Leased assets*

Leases in terms of which the Bank assumes substantially all the risks and benefits of ownership are classified as leases with the right-to-use the asset.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

In application of IFRS 16, entities that have lease contracts in which they are lessees must recognize a lease liability as of the entry into force of this regulation for leases previously classified as an operating lease under IAS 17. The lessee will measure that lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental loan rate on the date of initial application.

A right-of-use asset must be recognized as of the entry into force of this regulation for leases previously classified as an operating lease under IAS 17.

(iii) *Subsequent disbursements*

Costs incurred to replace a component of an item of property, furniture and equipment is capitalized and accounted for separately. Subsequent expenses are only capitalized when they increase the future economic benefits; otherwise, they will be recognized in the consolidated income statement when incurred.

(iv) *Depreciation and amortization*

Depreciation and amortization are charged to the operating results 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:

Useful lives of assets owned by the Bank and subsidiaries, except for BICSA:

Building	50 years
Vehicles	10 years
Furniture and equipment	10 years
EDP equipment	5 years
Leasehold improvements	5 years

Useful lives of assets owned by BICSA:

Building	40-50 years
Building improvements	5-35 years
Furniture and equipment	3-5 years
Furniture and equipment	3-15 years

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(v) Revaluation

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

If the realizable value of the assets is different from the one disclosed in the accounting records, the Bank must adjust the Carrying amount 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 made in 2015, and it was recorded on November 30, 2015.

(q) Deferred charges

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

(r) Intangible assets

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

Amortization of IT systems is charged to operation results on a straight-line basis over the estimated useful lives of the related assets. The estimated useful life is of 5 years.

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

(s) Impairment of assets

The carrying amount of an asset is reviewed on each consolidated 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 consolidated 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The recoverable amount of an asset is the greater of its net selling price and value in use. The net selling price is equal to the value obtained in free transaction between seller and buyer. Value in use is the present value of future cash flows and disbursements derived from the continuing use of an asset and from its disposal at the end of its useful life.

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 in the consolidated income statement or consolidated statement of changes in equity, as appropriate.

The SUGEF establishes the following: 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 recorded 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 register 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) Provisions

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Employees' legal benefits (severance pay)

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

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

Pursuant to the Workers 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 the employee.

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

The amounts of severance benefits not transferred to the Employee Association are provisioned as indicated in the Collective Labor Agreement is provisioned in accordance with the employer legal obligation.

BICSA retirement savings plan for employees

BICSA offers its employees defined contribution pension plans in accordance with the conditions and practices in the jurisdictions where it operates. Under those plans, BICSA contributes specified amounts to a fund managed by a third party and is under no legal obligation to make additional contributions in the event the fund has insufficient assets to pay employees their benefits.

BICSA has adopted a voluntary retirement savings plan in which BICSA contributes twice the amount contributed by employees, up to a maximum of 10% of the monthly salaries. The contribution made by BICSA and subsidiary under this plan as of December 31, 2020 amounted to ₡428.891.398, equivalent to US\$694.786.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

BICSA -Seniority premium and indemnity for employees

Under Panamanian labor law, companies are required to establish a severance fund to guarantee payment of a seniority premium and indemnity to eligible employees upon resignation or dismissal without just cause. To create the fund, quarterly contributions of the relative portion to the employee seniority premium equivalent to 1.92% of salaries paid in the Republic of Panama are made to cover the seniority premium, while monthly contributions equivalent to 5% are made to cover the indemnity. Quarterly contributions are to be placed in a trust. As of December 31, 2020, the severance fund had a balance of ¢636.010.980, equivalent to US\$01.030.311, which is disclosed in the consolidated financial statements as prepaid expenses.

(w) Legal reserve

According to Article 12 of the Organic Law of the National Banking System, the Bank yearly sets aside 50% of net earnings after income tax to increase its Legal Reserve. The Bank's subsidiaries, except for BICSA, allocate yearly 5% of their earnings after taxes to a legal reserve.

(x) Revaluation surplus

Revaluation surplus included in equity may be transferred directly to accrued earnings of prior periods when the surplus is realized. The whole surplus is realized upon disposal or use of the asset. The transfer of revaluation surplus to prior period retained earnings should not be made through the consolidated income statement. Further, the Bank was authorized by SUGEF to capitalize revaluation surplus by increasing the capital stock.

(y) Use of estimates

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(z) Recognition of main types of income and expenses

(i) Interest

Interest income and expense is recognized in the consolidated income statement on an accrual basis considering the effective yield or interest rate. Interest income and expense includes amortization of any premium or discount during the term of the instrument and until its maturity and is calculated on an effective interest basis.

(ii) Income from fees and commissions

When loan origination fees are generated, they are taken against effective yield, and they are deferred over the loan term. Other service fees and commissions are recognized when the services are rendered. In the case of storage services, insurance and inventory management they recorded by the accrual method.

(iii) Net income from held-for-trading securities

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

(iv) Operating lease expenses

Payments for operating lease agreements are recognized in the consolidated 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 valid on the consolidated balance sheet date, and any adjustment to tax payable with respect to previous years.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(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. Deferred tax assets are recognized only to the extent there is a reasonable probability that they will be realized.

BICSA's Miami branch is subject to state and federal income taxes in the United States of America. Income tax expense is determined by using the separate currency pools method, as described in Section 1.882-5 of the U.S. Treasury Department Regulations.

(bb) BICSA - Financial leases

BICSA's financial lease operations mainly consist of leases for transportation, machinery, and equipment. Average lease terms are between 36 and 60 months.

Lease receivables represent the present value of future lease payments. The difference between the gross receivable and the present value of the receivable is presented as unearned income, which is recognized in profit or loss over the life of the lease.

(cc) Pension and retirement plans for employees from Banco de Costa Rica

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

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(dd) Profit sharing

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 for the creation of the National Commission for Educational Loans (CONAPE) will be allocated as follows: two percent to CONAPE and three percent to the capital of the Development Financing Fund (FINADE). On January 2013 transitory III is removed and 5% will be allocated to CONAPE, in accordance with Law 9092, "Refund of Income of the National Commissions for Educational Loans."

In accordance with article 46 of the "National Emergency and Risk Prevention Law", 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 profits and of their accumulated budget surplus to the National Emergency Commission (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 sharing.

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 coverage for impoverished non-salaried workers. According to Executive Order number 37127-MTSS, starting in 2013 a progressive yearly contribution from net earnings must be set aside starting with 5% in 2013, up to 7% in 2015 and 15% as of 2017.

(ee) Development Financing Fund

As of 2008, in accordance with article 32 of Law No. 8634 "Development Banking System", all State-owned banks, except for Banco Hipotecario para la Vivienda (BANHVI), shall allocate each year at least five percent (5%) of their net earnings after income taxes to creating and strengthening its own development funds. The objective of that allocation is to provide financing to individuals and legal entities that present viable and feasible projects pursuant to the provisions of the Law (See note 40).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(ff) 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 managing 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) Managing Banks can perform services with the beneficiaries of the Development Banking System as recognized by Article 6 of Law 8634.
- b) In accordance with Article 35 of the Law 8634 with funds from the Development Credit Fund, the Managing Banks can provide services to other financial entities, except for private banks, provided they meet the objectives and obligations under Law 8634 and that are duly approved by the Governing Board.
- c) The Banks may allocate in accordance with Article 35, Law 8634 the resources of the Development Credit Fund through: associations, cooperatives, foundations, NGOs, producer organizations or other entities if they have credit operations in programs that meet the objectives established in the Law 8634 and are duly approved by the Governing 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 Law 8634 and its executive regulations, if the managing banks demonstrate proven lack of capacity and expertise. (See note 41).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(gg) BICSA - Trusts

BICSA has a license to manage trusts in or from the Republic of Panama. Fee and commission income derived from trust management is recognized on an accrual basis. BICSA is required to manage trust funds in accordance with the contractual terms and independently of its own equity.

(hh) Fiscal year

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

(2) Collateralized or restricted assets

Collateralized or restricted assets are as follows:

	December 2020
Cash and cash equivalents deposited in the Central Bank of Costa Rica (see note 4)	¢ 544.202.156.330
Restricted cash and cash equivalents (see note 4)	93.806.100
Total cash and cash equivalents	<u>544.295.962.430</u>
Past due and restricted financial instruments (see note 5)	48.403.442.246
Other assets	851.645.599
	<u>¢ 593.551.050.275</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(3) Balances and transactions with related parties

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

	December 2020
Assets:	
Loan portfolio	¢ 1.000.452.626
Other accounts receivable	168.842.012
Interests in other entities	536.364.510
Total assets	¢ <u>1.705.659.148</u>
Liabilities:	
Other accounts payable and provisions	46,411,286
Total liabilities	<u>46.411.286</u>
Income:	
Income from interest in entities	225.016.450
Sundry operating income	¢ 314.650.831
Total income	¢ <u>539.667.281</u>
Expenses:	
Expenses from investments in other companies	119.534.816
Sundry operating expenses	¢ 2.095.886.036
Total expenses	¢ <u>2.215.420.852</u>

The amount paid for the compensation for key staff is as follows:

	December 2020
Short-term benefits	¢ 3.997.828.497
Long-term benefits	130.965.257
Directors' seating fees	286.651.424
	¢ <u>4.415.445.178</u>

BCR Pensiones pays compensation to key personnel according to the approved budget for the period, which does not include benefits, incentives, or salaries in-kind.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(4) Cash and cash equivalents

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

	December 2020
Cash	¢ 119.287.622.423
Demand deposits in BCCR	557.130.153.527
Checking accounts and demand deposits in local financial entities	406.513.723
Checking accounts and demand deposits in foreign financial entities	124.787.806.670
Notes payable on demand	933.476.898
Restricted cash and cash equivalents	502.245.670
Interest receivable	37.968
Total cash and cash equivalents	803.047.856.879
Investments in short-term financial instruments	137.553.102.484
Total cash and cash equivalents	¢ 940.600.959.363

As of December 31, 2020, demand deposits in BCCR are restricted as a minimum legal reserve in the amount of ¢544.307.870.416.

As of December 31, 2020, BCR Pension's deposits in BCCR are restricted as a minimum legal reserve in the amount of ¢3.744.956, for a total of ¢3.048.836.070.

As of December 31, 2020, BCR Valores, S.A. - Puesto de Bolsa holds restricted deposits in the Central Bank of Costa Rica in the amount of ¢27.219.750, for a total of ¢28.775.581.282.

As of December 31, 2020, BCR Valores, S.A. - Puesto de Bolsa holds restricted assets as part of the guarantee fund in the amount of ¢28.654.555.433 (See note 2).

As of December 31, 2020, the Bank has a liability for outstanding checks in the amount of ¢1.185.956.937, which is offset by notes payable on demand cashed the next day once cleared by the clearing house.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(5) Investments in financial instruments

Investments in financial instruments are as follows:

	December 2020
At fair value through profit or loss	¢ 129.268.183.986
At fair value through other comprehensive income	1.158.570.957.948
At amortized cost	116.422.768.236
Interest receivable for investments at fair value through profit or loss	911.154.050
Interest receivable for investments at fair value through other comprehensive income	17.032.432.102
Interest receivable for investments classified at amortized cost	20.893.136
Allowance for impairment of financial instruments	(452.729)
	¢ 1.422.225.936.729
	December 2020
<u>At fair value through profit or loss</u>	<u>Fair value</u>
Local issuers:	
Other (Open Investment Funds)	¢ 71.241.983.986
<u>Foreign issuers:</u>	
Private Banks	58.026.200.000
	¢ 129.268.183.986

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Financial instruments at amortized cost issued by entities	December 2020 Fair value
<u>Foreign issuers:</u>	
Government (See note 18)	¢ 100.852.372.058
State-owned Banks	3.086.500.000
Private Banks	12.483.896.178
	<u>¢ 116.422.768.236</u>
At fair value through other comprehensive income	December 2020 Fair value
<u>Local issuers:</u>	
Government	¢ 925.005.764.942
State-owned Banks	178.355.116.103
Private Banks	34.376.187.824
Private Issuers	10.798.808.074
Other	7.574.901.609
	<u>1.156.110.778.552</u>
<u>Foreign issuers:</u>	
Government	1.189.524.754
Private issuers	1.270.654.642
	<u>¢ 1.158.570.957.948</u>

As of December 31, 2020, the investment portfolio amounts to ¢146.390.267.241 corresponding to the managed amounts of the Development Credit Fund (See note 40).

Maturities for investments in financial instruments are from January 01, 2021 to January 26, 2028.

Purchased financial instruments earn annual yield rates as follows:

	December 2020
Colones	0,0099% to 8,863%
US Dollars	<u>0,0099% to 9,5837%</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Investments have been pledged as follows:

	December 2020
Securities in guarantee, liquidity market	16.703.795.700
Manager, Operadora de Pensiones Complementarias S.A.	¢ 3.045.091.114
Guarantee for obligations for securities repurchase agreements BCR Valores, S.A.	28.654.555.432
	¢ 48.403.442.246

In accordance with Article 37 of the Workers Protection Law, the Pension Fund Manager must hold a minimum operating capital equivalent to a percentage of the net assets of the managed funds that as of December 31, 2020 amount to ¢3.045.091.114.

As of December 31, 2020, BCR Valores holds restricted investments in securities in the amount of ¢28.654.555.433.

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 December 31, 2020, purchased financial instruments remain under resale agreements.

Issuer	Asset Balance	Fair Value of Collateral	Resale Date	Resale Price
Local Government	¢ 38.533.178.993	38.533.178.993	01/01/2021 al 09/02/2021	100.00%
Others	1.148.034.976	1.150.598.484	01/01/2021 al 26/01/2021	100.00%
	¢ 39.681.213.969	39.683.777.477		

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(6) Loan portfolio

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

a) Loan portfolio by economic sector

	December
	2020
Current loans	
Personal loans	¢ 1.172.342.559.479
Loans Development Banking System	52.169.272.262
Business loans	191.836.337.097
Loans – Corporate	1.953.660.584.223
Loans – Public sector	121.787.364.424
Loans – Financial sector	119.917.688.959
	<hr/> 3.611.713.806.444
Past due loans	
Personal loans	75.263.661.053
Loans Development Banking System	1.026.613.616
Business loans	15.542.334.755
Loans – Corporate	99.294.857.344
	<hr/> 191.127.466.768
Judicial Collection	
Personal loans	35.271.822.067
Loans Development Banking System	96.844.502
Business loans	4.552.475.518
Loans – Corporate	7.385.366.030
	<hr/> 47.306.508.117
	<hr/> ¢ 3.850.147.781.329 <hr/>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

b) Loan portfolio by activity

Activity	December 2020
Agriculture, livestock, hunting and service activities	193.594.861.611
Fishing and aquaculture	11.172.166
Manufacturing	459.373.100.944
Telecommunications and public services	54.793.466.607
Mining and quarrying	41.301.001
Retail	275.150.270.515
Services	1.246.294.297.451
Transportation	55.192.075.081
Financial activities and stock exchange	4.064.820.107
Real estate, business, and leasing Activities	8.666.712.945
Construction, purchase, and repair of real estate	1.145.267.404.096
Consumer	299.542.513.969
Hospitality	103.285.509.304
Education	3.431.935.531
Other activities from the non-financial private sector	1.438.340.001
	<u>3.850.147.781.329</u>
Plus interest receivable	39.101.667.115
Deferred income from loan portfolio	(17.174.110.485)
Less allowance for loan	(134.225.242.689)
	<u>¢ 3.737.850.095.270</u>

c) Current loans

The total current loans originated by the bank are detailed as follows:

Current	December 2020
Personal	1.172.342.559.479
Development Banking System	52.169.272.262
Business	191.836.337.097
Corporate	1.953.660.584.223
Public sector	121.787.364.424
Financial sector	119.917.688.959
	<u>¢ 3.611.713.806.444</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The total past due loans originated by the Bank are detailed as follows:

		December 2020
Past due		
Personal	¢	75.263.661.053
Development Banking System		1.026.613.616
Business		15.542.334.755
Corporate		99.294.857.344
	¢	191.127.466.768

The total loans in judicial collection originated by the Bank are detailed as follows:

		December 2020
Judicial collection		
Personal	¢	35.271.822.067
Development Banking System		96.844.502
Business		4.552.475.518
Corporate		7.385.366.030
	¢	47.306.508.117

BICSA - Financial lease receivables

The balance of financial lease receivables is as follows:

		December 2020
Total minimum payments	¢	27.788.689.154
	¢	27.788.689.154

The maturities of the financial leases are as follows:

		December 2020
Less than a year	¢	159.877.614
From 1 to 5 years		27.628.811.540
	¢	27.788.689.154

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

d) Loan portfolio by arrears

The loan portfolio by arrears is detailed as follows:

	December 2020
Current	¢ 3.611.713.806.444
1 to 30 days	102.179.456.193
31 to 60 days	26.203.564.057
61 to 90 days	15.362.107.871
91 to 120 days	9.410.529.852
121 to 180 days	3.885.327.917
More than 181 days	81.392.988.995
	¢ 3.850.147.781.329

Loans with contractual non-compliance in the payments of the principal or interest are classified as past due.

e) Past due loans

Past due loans, including loans in accrual status (for which interest is recognized on a cash basis) and unearned interest on past due loans, are as follows:

	December 2020
Number of operations	2.567
Past due loans in non-accrual status	¢ 81.392.988.995
Past due loans bearing interest	¢ 157.040.985.890
Total of unearned interest	¢ 17.735.939.374

Loans in legal collection as of December 31, 2020:

# operations	Percentage	Balance
1.306	1,23%	¢ 47.306.508.117

As of December 31, 2020, the average annual interest rate earned on loans is 9.06% in colones and 6.38% in US dollars. For Banco Internacional de Costa Rica, S.A., the annual rate for operations in US dollars is 6,60% per annum.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

f) Interest receivable on loan portfolio

Interest receivable is detailed as follows:

	December 2020
Personal	¢ 14.594.983.605
Development Banking System	262.038.379
Business	2.304.086.284
Corporate	20.895.091.642
Public sector	579.760.109
Financial sector	465.707.096
	¢ 39.101.667.115

g) Allowance for loan impairment

Movement in the allowance for loan impairment is as follows:

2020 Opening Balance	¢ 97.730.957.808
Currency translation effect	1.377.388.676
Allowance charged to profit and loss (See note 29)	48.916.849.795
Recoveries	(2.550.660.760)
Transfer of balances	254.854.533
Adjustments for exchange differences	3.158.257.818
Less:	
Adjustments for exchange differences	(259.391.390)
Transfer to unpaid balances	(4.113.854.898)
Reversal of allowance against income (see note 30)	(10.289.158.893)
Balance as of December 31, 2020	¢ 134.225.242.689

h) Syndicated loans

As of December 31, 2020, the syndicated loan portfolio is detailed as follows:

Banco de Costa Rica syndicated loan portfolio:

The Bank does not maintain a syndicated loan portfolio with other banks.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

BICSA - Syndicated loans:

<u>No. Operations</u>		<u>Syndicated balances other banks</u>	<u>Syndicated balance BICSA</u>	<u>Total balance</u>
4	Global Bank	72.225.370.564	11.640.550.356	83.865.920.920
5	Banco Agromercantil de Guatemala, S.A.	332.795.998.181	9.188.201.819	341.984.200.000
2	Bladex	84.268.240.300	4.005.659.700	88.273.900.000
2	Bladex And Nomura Securities International	59.029.312.500	2.700.687.500	61.730.000.000
12	Credicorp Bank	3.969.184.375	2.519.155.342	6.488.339.717
2	Credit Suisse Ag	65.125.150.000	2.777.850.000	67.903.000.000
1	Mmg Bank	21.996.199.874	843.900.126	22.840.100.000
5	Prival Bank	13.651.433.872	15.369.800.845	29.021.234.717
1	Citibank New York	40.370.798.107	4.860.185.485	45.230.983.592
1	Bicsa,Us Exim,Fmo,Bhd Int,Unibank, Banco Panama	63.007.116.550	4.369.558.038	67.376.674.588
1	Bicsa/Multibank	50.484.206.592	5.858.177.000	56.342.383.592
2	Banistmo	44.014.621.566	3.920.866.082	47.935.487.648
7	Bicsa,Banpro, St Georges Bank, Inversiones del Lago	23.561.913.162	7.611.736.838	31.173.650.000
6	Bicsa/Banpro/St Georges Bank	12.185.836.799	1.086.113.201	13.271.950.000
1	Banco Latinoamericano de Comercio Exterior, S.A. (Bladex)	60.335.079.573	1.394.920.427	61.730.000.000
1	Citibank Na	74.196.990.800	2.965.509.200	77.162.500.000
1	The Bank Of Nova Scotia (Scotiabank)	12.382.744.048	6.136.255.952	18.519.000.000
54		1.033.600.196.863	87.249.127.911	1.120.849.324.774

(7) Held-for-sale assets, net

Held-for-sale assets are presented net of the allowance for impairment and per legal requirement, as follows:

	<u>December 2020</u>
Financial instruments	
Real estate	¢ 152.481.663.041
Other assets	693.972.758
Purchased for sale	977.446.409
Idle real property, furniture, and equipment	2.157.604.499
	<u>156.310.686.707</u>
Allowance for impairment and per legal requirement	<u>(91.291.928.384)</u>
	<u>¢ 65.018.758.323</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Movement in the allowance for impairment of realizable assets is as follows:

	December 2020
At the beginning of the year	¢ 144.375.955.540
Translation effect	776.138.934
Increase for awarded assets	45.589.449.907
Transfer to unused property, furniture, and equipment	81.847.646
Increase goods acquired for sale	3.096.128.083
Sales of goods	(36.256.614.785)
Withdrawal of unused property, furniture, and equipment	(1.352.218.618)
Balance at the end of the period	¢ 156.310.686.707

Movement in the allowance for held-for-sale assets is as follows:

	December 2020
Opening balance	¢ 96.813.230.661
Currency conversion effect	681.949
Increase in the allowance	24.786.848.229
Reversal in the allowance	(29.609.811.572)
Transfer of balances	(689.329.993)
Adjustment of allowance for appraisal of assets	(9.690.890)
Closing balance	¢ 91.291.928.384

(8) Interest in other companies' capital

Interest in other companies' capital is detailed as follows:

	December 2020
Capital interest in Bolsa Nacional de Valores. S.A.	¢ 29.057.201
Capital interest in Interclear Central de Valores. S.A.	36.359.987
Capital interest in Banprocesa. S. R. L.	536.364.510
	¢ 601.781.698

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, Banco de Costa Rica holds a 100% interest in Banprocesa, S.R.L., represented by 100 common registered shares of ¢100.000 par value each, subscribed and paid in full.

As of December 31, 2020, the interest in Bolsa Nacional de Valores, S.A., is of 1.514.974 common shares with a par value of ¢19,18 each, recorded at cost since these shares are not subject to public offering.

As of December 31, 2020, the interest in Interclear Central de Valores, S.A. is of 24.545.455 common shares with a par value of ¢1.4813 each, recorded at cost since these shares are not subject to public offering.

Interest in the equity of the financial conglomerate:

As of December 31, 2020, the capital stock of BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A., is represented by 1.279.450.000 common and registered shares, with a par value of ¢1 each, for a total of ¢1.279.450.000.

As of December 31, 2020, the capital stock of BCR Sociedad Administradora de Fondos de Inversión, S.A. is represented by 96.784 common and registered shares, with a par value of ¢50.000 each, for a total of ¢4.839.200.000.

As of December 31, 2020, the capital stock of BCR Valores, S.A. - Puesto de Bolsa, S.A., is represented by 12.626 common and registered shares, subscribed and paid in full, with a par value of ¢1.000.000 each, for a total of ¢12.626.000.000.

As of December 31, 2020, the capital stock of BCR Sociedad Corredora de Seguros, S.A., is represented by 45.000 common and registered shares, subscribed and paid in full, and with a par value of ¢50.000 each, for a total of ¢2.250.000.000. At the extraordinary Shareholders' Meeting 04-19 of BCR Corredora de Seguros on December 4, 2019, an increase in the Company's share capital was authorized in the amount of 1,000,000,000, representing an increase of 20,000 shares with which the share capital reaches the amount of ¢2,250,000,000 comprised of 45,000 common and registered, authorized and issued shares with a par value of ¢50,000 each.

As of December 31, 2020, the capital stock of Depósito Agrícola de Cartago S. A., is represented by 972.647 common and registered shares, which are authorized and issued, with a par value of ¢314.44 each, for a total of ¢305.842.762.

As of April 30, 2020, Bancrédito Sociedad Agencia de Seguros, S.A. was settled.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank owns a 51% ownership interest in BICSA (domiciled in Panama). As of December 31, 2020, ownership interest is represented by 6,772,137 common shares of US\$10 par value each. The remaining 49% of shares is owned by Banco Nacional de Costa Rica.

The Bank's income statement for the period ended December 31, 2020 includes the amounts of ¢864,341,486, corresponding to the net operating income of BICSA.

The Bank's statement of changes in equity for the period ended December 31, includes an equity increase of ¢6,092,994,523, corresponding to the changes resulting from the currency translation effect of BICSA's financial statement.

As of December 31, 2020, the accumulated balance of the minority interest of Banco Nacional de Costa Rica presented in the equity section of the consolidated balance sheet amounts to ¢72,376,421,244 and the income of the period represents the minority interest in the consolidated income statement in the amounts of ¢830,445,741.

The composition of BICSA's common shares is as follows:

	December 2020	
	Quantity	Amount in US Dollars
Balance at the beginning of the period	13,278,700	132,787,000
Balance at the end of the period	13,278,700	132,787,000

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(9) Property, furniture, and equipment

As of December 31, 2020, property, furniture, and equipment are detailed as follows:

	Property	Buildings	Furniture and equipment	Computer hardware	Vehicles	Assets for the right-of-use, buildings, and facilities	Total
Cost:							
Balance as of December 31, 2019	¢ 34.887.514.810	77.294.922.807	36.661.824.105	44.829.365.447	5.495.590.362	1.706.871.694	200.876.089.225
Currency translation effect	36.960.687	588.308.124	79.791.319	143.530.044	4.858.053	141.348.578	994.796.805
Additions	650.499.050	2.624.872.077	1.922.730.772	5.913.545.899	159.695.490	40.629.687.225	51.901.030.513
Withdrawals	0	0	(1.515.562.796)	(2.079.149.086)	0	(10.750.281.179)	(14.344.993.061)
Transfers	0	0	(925.059.599)	(442.153.561)	(37.010.500)	(4.049.285.643)	(5.453.509.303)
Revaluation	0	0	0	0	0	(645.998.291)	(645.998.291)
Balance as of December 31, 2020	<u>35.574.974.547</u>	<u>80.508.103.008</u>	<u>36.223.723.801</u>	<u>48.365.138.743</u>	<u>5.623.133.405</u>	<u>27.032.342.384</u>	<u>233.327.415.888</u>
Accumulated depreciation and impairment							
Balance as of December 31, 2019	0	23.422.095.753	23.119.456.851	29.205.986.903	3.833.880.855	444.489.481	80.025.909.843
Currency translation effect	0	93.943.430	75.186.146	133.809.856	4.173.138	36.809.452	343.922.022
Depreciation expenses	0	1.931.229.172	2.285.879.112	4.976.265.969	307.173.487	4.180.111.416	13,680,659,156
Withdrawals	0	0	(1.439.402.644)	(2.070.713.375)	0	(941.830.461)	(4,451,946,480)
Transfers	0	0	(837.715.250)	(449.481.988)	(37.010.501)	(413.220.471)	(1,737,428,210)
	0	0	(12.135)	(13.129)	(307.169)	0	(332,433)
Balance as of December 31, 2020	¢ <u>0</u>	<u>25.447.268.355</u>	<u>23.203.392.080</u>	<u>31.795.854.236</u>	<u>4.107.909.810</u>	<u>3.306.359.417</u>	<u>87.860.783.898</u>
Net balance:							
December 31, 2020	¢ <u>35.574.974.547</u>	<u>55.060.834.653</u>	<u>13.020.331.721</u>	<u>16.569.284.507</u>	<u>1.515.223.595</u>	<u>23.725.982.967</u>	<u>145.466.631.990</u>

Transfers are the property the entity is not using or that it is not using anymore and which value is transferred to another account.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(10) Other assets

(a) Other deferred charges

Other deferred charges are detailed as follows:

	December 2020
Improvement of properties in operating lease	¢ 934.883.929
Pre-issuance cost of financial instruments	548.927.366
Other deferred charges	9.536.953.846
	¢ 11.020.765.141

(b) Intangible Assets

Intangible assets include software and goodwill acquired from the purchase of BICSA's shares.

The changes in the balance of the net intangible assets are detailed as follows:

Cost:

Balance as of December 31, 2019	¢ 49.285.029.618
Currency translation effect	540.412.616
Additions to computer systems	9.670.302.360
Transfers	(22.850.431)
Withdrawals	(11.576.995.639)
Balance as of December 31, 2020	47.895.898.524

Accumulated depreciation and impairment:

Balance as of December 31, 2019	36.709.871.974
Currency translation effect	402.604.129
Amortization expense on computer systems	5.501.715.386
Transfers	(22.850.431)
Withdrawals	(11.246.085.421)
Balance as of December 31, 2020	31.345.255.637

Net Balance:

Balance as of December 31, 2020	¢ 16.550.642.887
--	-------------------------

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(c) Other assets

Other assets are detailed as follows:

	December 2020
Prepaid taxes	¢ 15.288.990.103
Other prepaid taxes	385.928.083
Prepaid leases	72.293
Prepaid insurance policy	193.709.427
Other prepaid expenses	<u>829.899.298</u>
	16.698.599.204
Stationery, supplies and other materials	129.109.947
Library and works of art	37.875.010
Construction in process	6.491.211.602
Automated applications under development	3.145.984.760
Membership in social and professional institutions	36.633.800
Other miscellaneous goods	<u>15.184.447.576</u>
	25.025.262.695
Missing cash	78.186.600
Transactions to be settled	33.252.087.163
Other operations pending allocation	<u>200.028.768</u>
	33.530.302.531
Guarantee deposits	<u>1.088.570.357</u>
	<u>¢ 76.342.734.787</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(11) Demand obligations with the public

Demand obligations with the public are as follows:

	December 2020
Checking accounts	¢ 1.746.610.242.356
Cashier's checks	110.507.020
Demand savings deposits	870.299.919.141
Overdue term borrowings	3.282.393.546
Overnight deposits	4.768.642.500
Other demand borrowings	1.156.645.504
Other demand obligations with the public	4.896.945.069
	<u>¢ 2.631.125.295.136</u>

(12) Term and demand obligations with the public and entities

Term and demand obligations with the public and entities per number of customers and accumulated amount are detailed as follows:

	December 2020
<u>Obligations with the public</u>	<u>Demand</u>
Deposits from the public	¢ 2.626.228.350.066
Other obligations with the public (See note 11)	<u>4.896.945.070</u>
	<u>2.631.125.295.136</u>
<u>Obligations with entities</u>	
Deposits from state-owned entities	5.719.231.057
Deposits from other Banks	7.422.983.997
Other obligations with entities	<u>43.881.820.588</u>
	<u>57.024.035.642</u>
	<u>¢ 2.688.149.330.778</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

	December 2020
<u>Obligations with the public</u>	
Deposits from the public	¢ 1.765.476.303.772
Other obligations with the public	12.226.036
	<u>1.765.488.529.808</u>
<u>Obligations with entities</u>	
Deposits from state-owned entities	56.827.897.834
Deposits from other Banks	6.302.842.901
Other obligations with entities	871.431.482.341
	<u>934.562.223.076</u>
	<u>¢ 2.700.050.752.884</u>

As of December 31, 2020, demand deposits with the public include court-ordered deposits for ¢224.285.191.705, which are restricted because of their nature.

As of December 31, 2020, the Bank has a total of 1.979.536 customers with demand deposits and with term deposits 35.689. The subsidiary BICSA has a total of 1.057 customers with demand deposits and 1.105. customers with demand deposits.

(13) Other obligations with the public

Other obligations with the public are as follows:

	December 2020
Obligations for confirmed letters of credit	¢ 2.760.818.741
Obligations for security tripartite agreements forward buyer	20.090.554.686
	<u>¢ 22.851.373.427</u>

Repurchase agreements:

The Bank raises funds through the sale of financial instruments under agreements in which the Bank undertakes to repurchase them at future dates and at a predetermined price and yield.

As of December 31, 2020, the Bank's repurchase agreements are as follows:

	Fair value of the assets	Liability balance	Repurchase date	Repurchase price
Investments ¢	<u>28.654.555.433</u>	<u>20.090.554.686</u>	11/01/2021 al 10/02/2021	100%

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

Obligations with entities and with the Central Bank of Costa Rica are detailed as follows:

	December
	2020
Term obligations with the Central Bank of Costa Rica	¢ <u>2.500.208.320</u>
	2.500.208.320
Checking accounts of local financial entities	29.483.679.347
Checking accounts of foreign financial entities	4.169.254.694
Overdrafts on demand checking accounts of foreign financial entities	5.617.981.088
Obligations for check deposits	1.185.956.937
Overnight deposits	16.567.163.575
Term deposits from local financial entities	92.713.916.110
Term deposits from financial entities abroad	52.264.004.508
Term deposits from foreign financial entities (See note 14-a)	483.223.693.928
Obligations for financial leases (See note 14-a)	25.414.990.755
Obligations for resources taken from the liquidity market	6.666.813.998
Obligations with resources from the Development Credit Fund (DCF)	168.090.921.427
Charges payable for obligations with financial and non-financial entities	<u>4.599.061.202</u>
	889.997.437.569
Loans from local financial entities (See note 14-a)	93.572.803.199
Obligations for deferred liquidity operations (See note 14-a)	<u>12.615.079.151</u>
	<u>996.185.319.919</u>
	¢ <u>998.685.528.239</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The maturities of the term obligations with entities are from January 1, 2021 to July 30, 2021.

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

	December 2020
Colones	0,26% to 3,750%
US dollars	0,009% to 3,2753%

As of December 31, 2020, there are no term obligations with foreign financial entities for the international issuance.

(a) Maturities of loans payable

As of December 31, 2020, the maturities of loans payable are detailed as follows:

	Central Bank of Costa Rica	Local financial entities	Foreign financial entities	International organizations	Total
Less than one year	¢ 2.500.208.320	92.231.937.948	219.900.562.655	64.816.500.000	379.449.208.923
From one to two years	0	17.284.400.000	104.929.510.398	43.574.117.657	165.788.028.055
From three to five years	0	3.338.358.400	26.964.076.852	0	30.302.435.252
More than five years	0	0	23.038.926.366	0	23.038.926.366
Total	¢ 2.500.208.320	112.854.696.348	374.833.076.271	108.390.617.657	598.578.598.596

As of December 31, 2020, there are obligations for the right of use – leased assets received.

	Fee	Interest	Maintenance	Amortization
Less than one year	¢ 3.813.235.428	1.519.542.903	0	2.293.692.525
From one to five years	30.174.308.953	7.053.010.724	0	23.121.298.230
	¢ 33.987.544.381	8.572.553.627	0	25.414.990.755

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, the allowance for future lease payments is as follows:

	<u>Colones</u>	<u>US\$ converted to colones</u>
1 year	400.966.444	2.455.506.625
2 years	522.819.868	2.437.642.272
3 years	377.241.226	2.568.825.411
4 years	504.310.942	2.492.834.695
5 years	348.470.430	2.813.773.669
More than 5 years	1.465.547.531	12.409.113.727
	<u>3.619.356.441</u>	<u>25.177.696.399</u>

As of December 31, 2020, future payments of the lease liability are presented as follows:

	Year	Payments	Present value	Amortization	Interes	Balance of the agreement
1	31-12-2021	4.418.285.512	4.221.461.659	938.575.432	1.816.184.200	25.926.076.050
2	31-12-2022	4.183.740.429	4.065.342.025	1.352.004.839	1.452.936.069	23.195.271.690
3	31-12-2023	4.287.322.699	3.930.393.659	1.755.799.622	1.302.080.540	20.210.029.531
4	31-12-2024	4.287.322.699	3.699.506.780	2.098.116.710	1.118.262.739	17.040.971.422
5	31-12-2025	4.252.330.799	3.453.004.607	2.340.404.036	1.009.186.020	13.711.824.792
6	31-12-2026	3.951.328.915	3.182.919.391	2.500.680.422	726.415.524	10.486.905.401
7	31-12-2027	3.825.298.530	3.290.493.013	2.755.687.496	534.805.517	7.196.412.388
8	31-12-2028	3.825.298.530	3.491.529.804	3.157.761.079	333.768.726	3.704.882.583
9	31-12-2029	3.825.298.530	3.704.882.583	3.584.466.637	120.415.947	0
10	31-12-2030	0	0	0	0	0
		<u>36.856.226.643</u>	<u>33.039.533.522</u>	<u>20.483.496.272</u>	<u>8.414.055.282</u>	<u>0</u>

(15) Income tax

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

As of December 31, 2020, the consolidated balance of income tax payable amounts to ¢13.411.228.956 (See note 17) and the income tax advance payments amounted to ¢15.288.990.103, recorded as assets.

As of December 31, the difference between the expense for income tax and the expense that would result from applying the corresponding income tax rate before income tax (30%) is reconciled as follows:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

	December 2020
Income before taxes	¢ <u>49.472.647.276</u>
<i>Plus:</i>	
Non-deductible expenses	61.930.709.070
<i>Less:</i>	
Non-taxable income	<u>(59.252.730.902)</u>
Taxable income of the conglomerate	<u>52.150.625.444</u>
Expense for income tax	15.551.963.150
Expense for income tax from the previous period	2.461.792.116
Current income tax	¢ <u>18.013.755.266</u>

The income tax expenses are detailed below:

	December 2020
Current income tax	¢ <u>18.927.088.406</u>
Decrease in income tax	(913.333.140)
Adjustment to income tax from the previous period	(2.527.860.894)
Advances of settled income taxes	<u>(2.074.665.416)</u>
	13.411.228.956
<u>Expenses for income taxes:</u>	
Expense for current income tax of the period	16.399.227.512
Expense for income tax from previous period	<u>2.527.174.078</u>
	18.926.401.590
Decrease in income tax	<u>(913.333.140)</u>
	18.013.068.450
Deferred income tax	652.540.952
Decrease in the deferred income tax	<u>(189.236.236)</u>
Income tax	¢ <u><u>18.476.373.166</u></u>
Realization of deferred income tax	¢ <u><u>(463.304.716)</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

BICSA is subject to tax legislation in the following jurisdictions.

Panamá

According to tax legislation in effect in Panama, BICSA is exempt from payment of income tax on foreign source income. BICSA is further exempt from payment of income tax on interest income earned on term deposits placed in local banks, on securities issued by the Panamanian and foreign governments and on investments in securities traded in the Panamanian Stock Exchange.

Miami

Income tax is not levied on any income that is unrelated to transactions or business dealings in the United States of America. Finance expense is calculated based on the cost of liabilities denominated in U.S. dollars.

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

Deferred tax assets and liabilities are attributed to the following:

As of December 31, 2020:

	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
Valuation of investments	¢ 902.379.611	(3.137.280.827)	(2.234.901.216)
Revaluation of assets	0	(5.124.654.741)	(5.124.654.741)
Provisions	6.519.491	0	6.519.491
Losses and unused tax credits	764.086.532	0	764.086.532
Allowance for doubtful accounts	57.751.610	0	57.751.610
	<u>¢ 1.730.737.244</u>	<u>(8.261.935.568)</u>	<u>(6.531.198.324)</u>

The movement of temporary differences is as follows:

	<u>December 31, 2019</u>	<u>Effects on income statement</u>	<u>Effects on equity</u>	<u>December 31, 2020</u>
On liabilities account				
Valuation of investments	¢ (4.678.909.244)	0	1.541.628.417	(3.137.280.827)
Revaluation of assets	(5.277.080.116)	152.425.375	0	(5.124.654.741)
On assets account				
Valuation of investments	1.035.665.812	0	(133.286.201)	902.379.611
Losses and unused tax credits	1.207.769.870	(609.256.481)	165.573.143	764.086.532
Provisions	7.246.554	(999.357)	272.294	6.519.491
Allowance for doubtful accounts	63.225.862	(5.474.252)	0	57.751.610
	<u>¢ (7.642.081.262)</u>	<u>(463.304.715)</u>	<u>1.574.187.653</u>	<u>(6.531.198.324)</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, the consolidated group presents a balance for income tax receivable of ¢91,649,266, in addition to supported value added tax for ¢1,223,918,502 and deductible value added tax for ¢43,630,817.

The balance of income tax receivable originated by an excess of advanced payments for the returns on investments of the Development Credit Fund which are exempt from the obligation and from income and value added tax advances.

As of December 31, 2020, the subsidiary BICSA does not report a deferred tax asset.

In conducting the analysis of the deferred tax BICSA's management considers whether it is probable that some or all portion of the deferred tax asset is not realizable. Performing or not the deferred tax assets depend on the generation of future taxable income during the periods in which those temporary differences become deductible. BICSA's management considers the detail of reversals of deferred tax assets and liabilities. Project future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income for the periods in which the deferred tax assets will be deductible. BICSA's management considers it may be able to realize the benefits of this deductible temporary difference.

IFRIC-23 "Uncertainty against Income Tax Treatments" introduces the concept of uncertain tax treatment, after the tax administration initiates a process of transferring charges; from there the entity is already facing an uncertain tax treatment where the tax authority has already indicated that it does not accept the treatment provided, and therefore it is in dispute, in which case what proceeds is to reflect the uncertainty according to the method that better predicts its resolution and by registering the corresponding provision. Therefore, the provision data is detailed as follows:

	December
	2020
Banco de Costa Rica	¢ 33.377.662.907
BCR Valores, S. A.- Puesto de Bolsa	900.141.980
BCR Sociedad Administradora de Fondos de inversión, S.A.	270.420.281
BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A.	249.398.960
BCR Corredora de Seguros, S.A.	241.600.214
	¢ <u><u>35.039.224.342</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(16) Provisions

The movement in provisions is detailed as follows:

	Legal benefits	Lawsuits	Other	Total
Balance as of December 31, 2019	¢ 9.630.769.477	16.399.929.029	37.269.529.821	63.300.228.327
Currency conversion effect	83.843.520	0	0	83.843.520
Provision made	375.162.854	4.207.994.950	40.527.781	4.623.685.585
Provision used	(489.873.938)	(2.494.060.685)	(206.824.642)	(3.190.759.265)
Adjustment for exchange rate differences	0	65.888.349	0	65.888.349
Provisions reversed	<u>(30.301.187)</u>	<u>(2.434.502.876)</u>	<u>(2.064.008.619)</u>	<u>(4.528.812.682)</u>
Balance as of December 31, 2020	¢ <u>9.569.600.726</u>	<u>15.745.248.767</u>	<u>35.039.224.341</u>	<u>60.354.073.834</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, the Bank is a defendant in litigation, for which the following provisions have been recorded:

- Ordinary suits against the Bank have been estimated for ₡28.756.508.316 and US\$69.193.922, for which the Bank has provisions recorded in the amounts of ₡1.754.726.808 and US\$1.395.500 respectively
- The criminal lawsuits against the Bank have been estimated in ₡2.416.905.449 and US\$10.077, for which the Bank has recorded a provision in the amount of ₡716.430.
- For their nature, labor suits are difficult to estimate, however they are estimated in ₡5.179.322.543 and US\$825.001, for which the Bank has provisions recorded in the amount of ₡1.868.413.533, in the cases in which there is no firm condemnatory.
- There are administrative proceedings in different stages, estimated for ₡10.394.615.080 and US\$36.257, for which ₡10.389.621.563 and US\$34.057, respectively, have been provisioned.
- Reversal is made due to the 2015 prescription to IFRIC 23 (see note 38), recorded in other provisions.
- 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.

As of December 31, 2020, there are no provisions for litigation at BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A.

As of December 31, 2020, there are no provisions for litigation at BCR Sociedad Administradora de Fondos de Inversión S.A.

As of December 31, 2020, BCR Valores Puesto de Bolsa, S.A. is a defendant in a lawsuit filed by a customer, under file number 08-001181-1027-CA. which was admitted during a vote of the First Chamber of the Supreme Court of Justice, and BCR Valores Puesto de Bolsa, S.A. was ordered to pay damages, which existence and estimate must be proven in the enforcement of the judgment. The amount claimed by the customer is of US\$202.737. The Brokerage House has provisioned ₡125.149.550.

As of December 31, 2020, BCR Valores Puesto de Bolsa, S.A., has an established legal process of labor nature, file number 17-002581-1178-LA, for which a provision was made in the amount of ₡8,441,966.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, BICSA there are no provision for litigation.

(17) Other miscellaneous accounts payable

Other miscellaneous accounts payable are detailed as follows:

	December 2020
Fees payable	41.113.008
Due for goods and services	¢ 834.557.500
Current income tax	13.411.228.956
Tax on DU propts	353.549.557
Value added tax	549.277.629
Employer contributions	6.022.929.931
Court-ordered withholdings	874.650.168
Tax withholdings payable	3.828.562.482
Withheld employer contributions payable	1.292.495.700
Other third-party withholdings payable	10.919.407.574
Compensations and salaries payable	7.779.788.215
Interests (distributions) payable on results of the period (see note 33)	10.819.260.713
Obligations payable on loans with related parties	15.779.227
Accrued vacations	6.336.565.846
Accrued statutory Christmas bonus	621.670.397
Commissions payable from insurance placement	51.938.166
Commissions payable with related parties	2.117.502.409
Miscellaneous creditors	26.486.712.679
	¢ <u>92.356.990.157</u>

(18) Equity

a) Capital Stock

The Bank's capital stock is as follows:

	December 2020
Capital under Law No. 1644	¢ 30.000.000
Bank capitalization bonds	1.288.059.486
Capital increase per Law No. 7107	118.737.742.219
Capital increase per Law No. 8703	27.619.000.002
Capital increase per Law No. 9605	18.907.432.694
Increase for revaluation of assets	14.130.125.230
Other	697.630.970
	¢ <u>181.409.990.601</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 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 Banco de Costa Rica, in order to stimulate productive sectors and particularly small and medium sized enterprises. For such purposes, the Bank received four securities for a total of US\$50.000.000 equivalent to ¢27.619.000.002.

As of December 31, 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 managed by the entity was transferred.

b) Surplus from revaluation of property, furniture and equipment

This includes the increase in fair value of real property (land and buildings) owned by the Bank.

As of December 31, 2020, the revaluation surplus amounts to ¢37.774.830.067.

c) Adjustments for revaluation of investments at fair value with changes in other comprehensive income.

They include variations at the fair value with changes through comprehensive income.

As of December 31, 2020, the balance of the adjustment for valuation of investments at fair value with changes through other comprehensive income corresponds to unrealized net losses in the amount of ¢2.718.583.704.

d) Adjustments for valuations of interest in other companies

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

As of December 31, 2020, changes in equity include foreign exchange differences corresponding to investments in other companies in the amount of ¢20.902.126.589.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

e) Special reserves of retained earnings from BICSA

As of December 31, 2020, from Banco de Costa Rica's retained earnings resulting from the investment in other companies, it should be considered for any purpose, that there are amounts related to special reserves applied to equity accounts of BICSA for US\$33.061.387 (51% of US\$64.826.249) due to changes made to policies concerning the subsidiary.

Laws and regulations applicable in the Republic of Panama establish that, for purposes of compliance with standards issued by the Superintendence of Banks of Panama, from the year 2014 on, an estimated of credits reserves should be prepared based on regulatory guidelines.

The General Board of Directors resolution SBP-GJD-003-2013 dated July 9, 2013 establishes the accounting for the differences that may arise between the regulations issued by the Superintendence of Banks and the IFRS, so that: 1) the accounting records and the financial statements are prepared in accordance with IFRS as required by agreement No.006-2012 dated December 18, 2012; 2) according to standards applicable to banks and presenting additional specific accounting aspects than those required by IFRS, in the event that an estimate of provision or reserve is greater than the correspondent calculation under IFRS, the excess of provision or reserve will be recognized in the equity. This general resolution came into effect for the accounting periods ending on or after December 31, 2014. Subject to prior authorization of the Superintendence of Banks, banks can reverse the established provision, partially or totally, based on justification duly evidenced and presented to the Superintendence of Banks.

Agreement No.004-2013 indicates that specific provisions originate from concrete and objective evidence of impairment. These provisions should be constituted for credit facilities classified in the risk category known as special, subnormal, doubtful or irrecoverable, both for individual credit facilities or a group of them. At least from December 31, 2014, banks must calculate and always maintain the amount of specific provision determined by the methodology specified in this agreement, which considers the balance due from each credit facility in any of the categories subject to provision, the present value of each available collateral as mitigation of risk, as established by type of guarantee in this agreement, and a table of weightings applied to the net amount exposed to loss of such credit facilities.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

In case of an excess of a specific provision calculated in accordance with this agreement over the estimate calculated in accordance with IFRS, this excess will be recorded as a regulatory reserve in the equity, that increases or decreases towards undistributed earnings. The balance of the regulatory reserves will not be considered as capital funds for purposes of calculating certain ratios or prudential ratios mentioned in the agreement. The Bank determines its country risk reserve in compliance with provisions established in general resolutions No.7-2000 and No.10 2001 issued by the Superintendence of Banks of Panama.

Agreement No.004-2013 indicates that the dynamic provision is a reserve constituted to meet possible future needs of specific provisions ruled by prudential banking regulations criteria. It is constituted with quarterly periodicity on credit facilities that do not have a specific provision assigned. i.e., credit facilities classified in normal category. This agreement regulates the methodology to calculate the amount of the dynamic provision, considering a minimum or maximum restriction applicable to the provision's amount determined on credit facilities classified in normal category. The dynamic provision is an equity account that increases or decreases with assignments to or from undistributed earnings. The credit balance of the dynamic provision is part of the regulatory capital but does not replace or compensates the net worth equity requirements set forth by the Superintendence.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Regulatory capital

As of December 31, 2020, the net worth equity for the BCR Financial Conglomerate is detailed as follows:

Companies of the Fiancial Conglomerate	<u>Capital base</u>	<u>Minimum individual capital requirement</u>	<u>Individual surplus or deficit</u>	<u>Non-transferable items</u>	<u>Transferable surplus and individual deficit</u>
Parent Company					
Banco de Costa Rica	¢ 455.497.193.648	378.572.743.719	76.924.449.930	0	76.924.449.930
	<u>455.497.193.648</u>	<u>378.572.743.719</u>	<u>76.924.449.930</u>	<u>0</u>	<u>76.924.449.930</u>
Regulated entities					
Banco Internacional de Costa Rica, S. A and subsidiary	147.708.196.486	110.394.574.092	37.313.622.394	18.283.674.973	19.029.947.421
BCR Valores, S. A.- Puesto de Bolsa	19.345.720.607	3.750.156.134	15.595.564.473	0	15.595.564.473
BCR Sociedad Administradora de Fondos de inversión, S.A.	7.748.149.840	3.623.087.270	4.125.062.570	0	4.125.062.570
BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A.	4.798.984.775	3.809.250.842	989.733.933	0	989.733.933
	¢ <u>179.601.051.708</u>	<u>121.577.068.338</u>	<u>58.023.983.370</u>	<u>18.283.674.973</u>	<u>39.740.308.397</u>
Non regulated entities					
BCR Corredora de Seguros, S.A.	4.651.471.820	2.102.117.390	2.549.354.430	0	2.549.354.430
Depósito Agrícola de Cartago S.A. and subsidiary	680.346.900	238.667.200	441.679.700	0	441.679.700
	¢ <u>5.331.818.720</u>	<u>2.340.784.590</u>	<u>2.991.034.130</u>	<u>0</u>	<u>2.991.034.130</u>
Global surplus or déficit of the Financial Conglomerate				¢	<u><u>119.655.792.457</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(19) Contingent accounts

The Bank has consolidated off balance sheet commitments and contingencies that arise in the ordinary course of business and involve elements of credit and liquidity risk.

Off balance financial instruments with risk are as follows:

		December 2020
Guarantees granted:		
Performance bonds	¢	135.430.721.851
Bid bonds		898.266.860
Other guarantees		98.532.545.113
Issued non-negotiated letters of credit		4.904.268.841
Confirmed non-negotiated letters of credit		9.994.211.695
Credit lines to be used automatically		109.920.179.845
Other contingencies		74.386.976.782
Credits pending disbursement		1.529.675.946
	¢	<u>435.596.846.933</u>

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

		December 2020
With prior deposit	¢	7.226.846.987
Without prior deposit		353.983.023.164
Pending lawsuits and Claims		<u>74.386.976.782</u>
	¢	<u>435.596.846.933</u>

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

As of December 31, 2020, letters of credit are backed 100% by guarantee deposits or credit facilities.

As of December 31, 2020, floating guarantees in custody are for ¢240.876.163.489.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank has off balance financial instruments with risk that arise in the ordinary course of business to meet the financial needs of its customers. These financial instruments include letters of credit and guarantees that involve varying levels of credit risk.

Other contingencies

As of December 31, 2020, the Bank's Legal Division reported the following contingencies and commitments:

- In contentious matters, there are active processes established against the Bank estimated in the amount of ₡27.001.781.507 and US\$67.798.421. In addition, other contentious processes are filed for preliminary injunction with no estimate.
- In labor matters there are active ordinary processes estimated in the amounts of ₡3.310.909.009 and US\$825.001.
- Criminal proceedings in which the Bank is a third-party defendant are estimated at ₡1.700.475.429 and US\$10.077.
- Administrative proceedings against the Bank have been estimated in the amounts of ₡4.993.517 and US\$2.200.

As of December 31, 2020, there are legal claims filed against BICSA and its subsidiaries that, in the opinion of Management and external attorneys, are not expected to have a material adverse effect on the consolidated position, the consolidated performance or the entity's operations.

As of December 31, 2020, due to the merger between INS Pensiones Operadora de Pensiones Complementarias, S.A. and BCR Pensión Operadora de Planes de Pensiones Complementarias. S.A., a series of contingencies arose that have been reasonably covered with pledged securities from the seller.

As of December 31, 2020, there is a process against BCR Valores in the amount of US\$175,000, processed under file 16-000207-1027-CA 8 of the Administrative and Civil Court of Finance of the II Judicial Circuit of San José. To date and in accordance with the criteria of the lawyers, an estimate of the eventual outcome is not feasible.

As of December 31, 2020, there is a process against BCR Valores in the amount of US\$465,000 processed under file 16-000208-1027-CA 2 of the Administrative and Civil Court of Finance of the II Judicial Circuit of San José. To date and in accordance with the criteria of the lawyers, an estimate of the eventual outcome is not feasible.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2019, BCR Valores recognized a provision for tax contingencies of ¢1.301.647.081. The remaining ¢1.301.624 correspond to adjustments for exchange rate differences of the provisions in foreign currency.

The provision recorded in BCR Valores affected the profit from previous periods for ¢978.296.974 million, corresponding to contingencies arising in 2015, 2016, 2017 and 2018 (¢194.676.459, ¢264.905.512, ¢206.824.643 and ¢311.890.361, correspondingly); The remaining ¢323.346.107 million, from the 2019 period, were recorded as an expense in 2019.

(20) Trusts

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

		December 2020
Cash and due from banks	¢	92.575.854.311
Investments in financial instruments		82.123.315.821
Loan portfolio		50.726.165.899
Allowance for doubtful accounts		(9.162.850.564)
Realizable assets		56.521.168.659
Investments in other companies		35.077.180.689
Other accounts receivable		77.399.842.492
Property, furniture, and equipment		400.990.434.662
Other assets		186.416.949.697
	¢	972.668.061.666

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Trust capital held by subsidiaries and invested in assets is detailed as follows:

		December 2020
Banco de Costa Rica	¢	919.788.849.804
Banco Internacional de Costa Rica, S.A.		52.879.211.862
	¢	972.668.061.666

(21) Other debit memoranda accounts

Other debit memoranda accounts are detailed as follows:

		December 2020
Own assets and securities held in custody	¢	7.598.327.512
Guarantees received and held in custody		750.386.201.942
Guarantees received and held by third parties		4.217.017.643
Granted and unused credit lines		529.147.832.613
Write-offs		240.294.571.030
Suspense interest receivable		27.094.306.127
Backup documentation		58.711.000
Other memoranda accounts		13.857.478.719.636
Assets and securities held in custody for third parties		93.391.517.891
Managed funds assets		2.138.256.394.888
Management of individual portfolios by the stock market		119.644.642.712
Held-for-trading securities received as guarantee (guarantee trust)		45.524.405.011
Own held-for-trading securities		707.952.886.907
Cash and accounts receivable for custodial activities		153.445.337.691
Held-for-trading securities held in custody for third parties as guarantee (guarantee trust)		46.853.797.504
Held-for-trading securities pending receipt		2.392.356.852
Confirmed spot agreements pending settlement		4.717.185.876
Futures pending settlement		41.686.486.593
Third parties held-for-trading securities		5.845.644.530.040
	¢	24.615.785.229.468

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Other memoranda accounts by subsidiaries are detailed as follows:

	December 2020
Banco de Costa Rica	¢ 20.374.911.227.430
Banco Internacional de Costa Rica, S.A.	1.446.068.567.794
BCR Valores, S.A.- Puesto de Bolsa (See note 22)	645.908.328.812
BCR Sociedad Administradora de Fondos de Inversión, S.A. (See note 23)	753.207.743.033
BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A. (See note 24)	1.388.453.642.542
Depósito Agrícola de Cartago S. A.	2.973.801.686
	¢ 24.611.523.311.297

(22) Current and term brokerage operations and portfolio management operations

Memoranda accounts of BCR Valores. S.A. - Puesto de Bolsa are detailed as follows:

	December 2020
<u>Other own memoranda accounts</u>	
Other memoranda accounts	8.703.881.882
Total own other memoranda accounts	¢ 8.703.881.882
<u>Memoranda accounts for third parties</u>	
Portfolio management	¢ 119.644.642.712
Cash and accounts receivable by custodial activity	652.629.485
Held-for-trading pending receipt	2.392.356.852
Purchased marketable securities pending receipt	
Held-for-trading received s guarantee	1.970.301.754
Confirmed contracts pending settlement	4.717.185.876
Futures pending settlement-forward buyer (See note 22-a)	37.653.496.522
Futures pending settlement-forward seller (See note 22-a)	4.032.990.071
Central de Valores private (local custody)	173.384.595.513
Central de Valores private (international custody)	25.989.283.284
Central de Valores public (BCCR)	266.679.464.861
Vault	87.500.000
Total memoranda accounts for third parties	637.204.446.931
Total memoranda accounts (See note 21)	645.908.328.812
Total memoranda accounts and trusts	¢ 645.908.328.812

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

In repurchase and term operations, the Brokerage House is contingently liable for the short balance that arises when a security is settled for an amount that is less than the amount payable to the respective buyer. In accordance with the Regulations for Repurchase Operations and the Regulations for Term Operations, all such transactions have collaterals to cover those contingencies.

Securities backing repurchase agreements are held in custody at Central de Valores de la Bolsa Nacional de Valores. S.A. (CEVAL) or foreign depositories with which CEVAL has custody agreements.

a) Repurchase

BCR Valores subscribes agreements to buy or sell securities at certain future dates (repurchase agreements). Those agreements are comprised of securities that the parties undertake to sell or buy on an agreed upon date and at a stated price. The difference between the contractual value and the value of the security represents additional collateral for the operation and corresponds to a portion of the security held in custody.

As of December 31, 2020, forward buyer and seller positions in repurchase and reverse repurchase agreements in which BCR Valores, S.A. Puesto de Bolsa (Brokerage House) participates, are as follows:

Third parties	Forward buyer			Forward seller		
	Colones	US Dollars	Total	Colones	US Dollars	Total
1 to 30 days	€ 3.527.806.909	27.581.692.013	31.109.498.921	0	2.492.375.498	2.492.375.498
31 to 60 days	253.012.131	6.093.587.244	6.346.599.375	0	1.484.159.353	1.484.159.353
61 to 90 days	0	197.398.225	197.398.225	0	56.455.221	56.455.221
More than 91 days	0	0	0	0	0	0
Total, third parties	€ 3.780.819.040	33.872.677.482	37.653.496.522	0	4.032.990.071	4.032.990.071
Total	€ 3.780.819.040	33.872.677.482	37.653.496.522	0	4.032.990.071	4.032.990.071

b) Guarantees granted

To comply with Bolsa Nacional de Valores, S.A., requirement for a system of guarantees to secure operations executed by the Brokerage House on behalf of third parties, the Brokerage Firm may either hold a performance bond in colones issued by a private Costa Rican bank or make a contribution to the Guarantee Fund as described below.

To establish a risk management system, SUGEVAL set up a guarantee fund comprised of contributions from brokerage firms. Contributions are made proportionally based on the net buyer positions during the last six months. As of December 31, 2020, the Brokerage House had made contributions for a total of €83.806.100. These contributions are registered in the subaccount "Guarantee fund - National Stock Exchange".

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

c) Agreements entered with customers of BCR Valores, S.A. - Puesto de Bolsa

Starting 2012, a multiple agreement was implemented, which includes all the products offered by BCR Valores, except for individual portfolio management services. Accordingly, the BCR Valores has two types of agreements available:

- Commission agreement to perform brokerage operations, foreign exchange operations, and operations with foreign exchange and financial derivatives.
- Individual portfolio management agreement.

d) Customer securities and own securities in custody

As of December 31, 2020, BCR Valores, S.A. has following securities in custody:

Custody of third parties

Place of Custody	Custody Type	Balance
<i>Colones</i>		
Local	Custody free	¢ 139.864.325.786
Local	Repurchase operations	6.518.826.114
		¢ <u>146.383.151.999</u>
<i>US Dollars</i>		
Local	Custody free	¢ 251.293.585.079
Local	Repurchase operations	42.474.823.396
Foreign custodians	Available at face value	25.483.839.390
Foreign custodians	Shares at purchase value	327.052.886
		¢ <u>319.579.300.751</u>
<i>Canadian Dollars</i>		
International	Custody free	¢ 178.391.008
Total custody of own colones, US dollars and other currencies		<u>466.140.843.659</u>
Total custody of third parties colones, US Dollars and others		¢ <u>466.140.843.659</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(23) Investment fund management agreements

The value of net assets in each investment fund managed by the BCR Sociedad Administradora de Fondos de Inversion. S.A. (Investment Fund Manager) is as follows:

Investment Fund	Type of fund	December 2020
<i>In Colones</i>		
BCR Short-term colones, undiversified	Financial, open	¢ 95.685.666.591
BCR quarterly, colones, non- diversified	Financial, open, medium-term	225.001.176
BCR mixed colones, undiversified	Open, medium-term	63.595.881.750
BCR Portfolio Fund Colones	Open, medium-term	46.517.784.998
BCR Real Estate, Colones Undiversified	Closed, non-financial and mixed portfolio	17.463.063.043
		¢ <u>223.487.397.558</u>
<i>In US Dollars</i>		
Investment Funds in US Dollars, equivalent in colones (see note 21)		<u>529.720.345.475</u> ¢ <u>753.207.743.033</u>
<i>Investment Funds in US Dollars</i>		
BCR Liquidity Dollars, undiversified	Open	US\$ 95.024.823
BCR Real Estate Dollars, undiversified	Real estate, closed, long-term	285.065.245
BCR Real Estate Trade and Industry, undiversified	Real estate, closed, long-term	208.433.419
BCR Liquidity Fund Dollars, international, undiversified	Open, money market	130.769.931
BCR Portfolio Fund Dollars	Open, medium-term	29.727.578
BCR Evolution	Open, medium-term	2.013.317
BCR Real Estate Progress Fund, undiversified	Real estate, closed	87.573.125
PEL Development Investment Fund	Real estate, closed	19.517.209
		US\$ <u>858.124.647</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(24) Pension fund management agreements

The value of assets for each investment fund managed by BCR Pensión Operadora de Planes de Pensiones Complementarias, S.A. (Pension Fund Manager) is as follows:

	December 2020
Own assets and securities held in custody	¢ 7.598.327.512
Assets and securities held in custody by third parties	68.581.346
Mandatory pension fund	1.111.592.826.639
Voluntary pension fund	28.270.294.723
Labor capitalization fund	78.173.324.185
Supplementary pension funds created by special lawsa (See note 21)	162.750.288.137
	¢ <u>1.388.453.642.542</u>

The detail of assets for each pension fund in the separately issued reports is detailed as follows.

Funds received by the Pension Fund Manager are invested in the following securities and other investments:

	December 2020
Voluntary Pension Fund (colones)	¢ <u>21.468.227.897</u>
At fair value with changes through other comprehensive income	21.368.5730.556
Entities from the public sector of the country	14.335.362.921
Treasury	11.473.455.060
Banco Central de Costa Rica	587.796.815
Other issuers from the public sector	2.274.111.046
Entities from the private sector of the country	7.033.210.635
Financial	5.820.586.875
Non-financial	1.212.623.760
At fair value with changes through profit or loss	99.654.341
Entities from the private sector of the country	99.654.341
Financial	99.654.341

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Voluntary Pension Fund (US\$)	US\$	<u>5.779.376.581</u>
At fair value with changes through other comprehensive income		5.723.164.669
Entities from the public sector of the country		2.855.360.676
Treasury		2.560.694.373
Other issuers from the public sector		294.666.303
Entities from the private sector of the country		2.867.803.993
Financial		2.524.763.105
Non-financial		343.040.888
At fair value with changes through profit or loss		56.211.912
Entities from the private sector of the country		56.211.912
Financial		56.211.912
 Mandatory Regime of Supplementary Pensions (colones)		 <u>1.137.617.872.692</u>
At fair value with changes through other comprehensive income		1.039.828.938.848
Entities from the public sector of the country		805.837.874.744
Treasury		642.382.930.065
Banco Central de Costa Rica		54.964.311.993
Other issuers from the public sector		108.490.632.686
Entities from the private sector of the country		233.991.064.104
Financial		219.556.913.650
Non-financial		14.434.150.454
At fair value with changes through profit or loss		97.788.933.844
Entities from the private sector of the country		30.709.750.162
Financial		30.709.750.162
Entities from the public sector of the country		67.079.183.682
Financial		67.079.183.682
 Labor Capitalization Fund (colones)		 <u>157.839.957.095</u>
At fair value with changes through other comprehensive income		157.510.875.031
Entities from the public sector of the country		106.716.212.521
Treasury		83.441.019.730
Banco Central de Costa Rica		9.315.919.491
Other issuers from the public sector		13.959.273.300
Entities from the private sector of the country		50.794.662.510
Financial		47.354.824.164
No-financial		3.439.838.346
At fair value with changes through profit or loss		329.082.064
Entities from the private sector of the country		329.082.064
Financial		329.082.064

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The agreements entered into by the Pension Fund Manager are found in chapter II of the Labor Protection Law, articles 14, 15, and thereafter. The applicable agreement is known as "Voluntary Supplemental Pension Plan Affiliation Agreement."

Following is a general description of the nature of the agreements entered into:

The Labor Protection Law seeks to establish mechanisms to expand coverage and strengthen the funding base for the Disability, Old Age, and Death System of the CCSS through supplemental pension funds. The Law establishes a voluntary personal savings system, whereby contributions are recorded and controlled by the Centralized Collection System of the CCSS, or directly by the pension fund operators. A close relationship exists between the funds, plans, and agreements, the latter being a formal requirement for eligibility to access pension funds. The agreements define and stipulate the rights and obligations of both parties.

The funds are separate equity funds administered by pension fund operators for a stated purpose, i.e. long-term savings to be used by the member as a supplemental pension fund. The funds are comprised of voluntary contributions from members and third-party contributors.

The plans are a set of complementary conditions and benefits offered to the plan's beneficiaries.

(25) Contract for custody and storage of goods and merchandise

As of December 31, 2020, Depósito Agrícola de Cartago and its subsidiary have current contracts that are detailed below:

- (a) Logistics services provided to the duty-free shops of Instituto Mixto de Ayuda Social (IMAS), management of the General and Auxiliary Warehouses, transportation and distributions of goods.
- (b) Banking services provided to the duty-free shops of Instituto Mixto de Ayuda Social (IMAS), for collection of sales in the shops by human cashiers.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(26) Financial income on investments in financial instruments

Financial income on investments in financial instruments is as follows:

	December 2020
Interest for held-for-trading financial instruments	¢ 519.156.370
Income from available-for sale financial instruments	59.414.829.618
Interest for investments in held-for-maturity Financial	2.304.138.603
Income from investments in due and restricted financial instruments	3.102.801.111
	¢ <u>65.340.925.702</u>

(27) Financial income on loan portfolio

Financial income on loan portfolio is detailed as follows:

	December 2020
Personal	¢ 115.075.447.160
Development Banking System	2.320.562.522
Business	13.183.316.700
Corporate	132.320.637.635
Public sector	9.292.178.239
Financial sector	13.040.856.579
Amortization of the net commission of the incremental direct costs associated with loans	3.662.153.965
Interest for accounts receivable related to loan portfolio and other financial instruments for other concepts not included in the previous subaccounts and analytical accounts	1.160.124.116
	¢ <u>290.055.276.916</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(28) Expenses from obligations with the public

Financial expenses from obligations with the public are as follows:

	December 2020
Expenses from demand deposits	¢ 38.169.028.093
Expenses from term deposits	99.923.503.593
Expenses from securities in repurchase agreements	699.873.622
	¢ 138.792.405.308

(29) Expenses from allowances for impairment of loan portfolio

Expenses from allowances for impairment of loan portfolio are as follows:

	December 2020
Decrease in specific allowance for loan portfolio (See note 6-f)	48.473.468.634
Expense for allowance for impairment and bad debts from other accounts receivable	4.313.922.866
Decrease in allowance for uncollectibility of contingent loans	32.685.848
Decrease in generic allowance and counter cycle for loan portfolio (See note 6-f)	410.695.231
Decrease in generic allowance and counter cycle for contingent loans	
Expenses for allowance for impairment of investments at fair value through other comprehensive income	5.502.312.907
Expenses for allowance for impairment of financial instruments at amortized cost	24.016.020
Expenses for allowance for impairment of expired and restricted financial instruments	95.313.913
	¢ 58.852.415.501

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

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

	December 2020
Recovery of written-down loans	16.643.407.501
Decrease in specific allowance for loan portfolio (See note 6-f)	5.869.755.108
Decrease in allowance for uncollectibility of other receivables	2.209.203.340
Decrease in allowance for uncollectibility of contingent loans	44.555.220
Decrease in generic allowance and counter cycle for loan portfolio (See note 6-f)	4.419.403.785
Decrease in generic allowance and counter cycle for contingent loans	42.067.583
Decrease in allowance for non-collectibility of investment securities	4.177.728.901
	<u>33.406.121.438</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(31) Income from service fees and commissions

Income from service fees and commissions is detailed as follows:

	December 2020
Drafts and transfers	¢ 2.294.547.702
Foreign trade	673.796.674
Certified checks	3.924.387
Trust management	4.187.343.883
Custodial services	392.597.074
For mandates	322.974
Collections	468.759.563
Credit Cards	46.260.283.697
Investment Fund management	8.661.931.977
Pension Fund management	6.087.513.986
Insurance underwriting	6.081.080.112
Brokerage fees (by third parties in local market)	1.548.418.275
Brokerage fees (by third parties in other markets)	210.451.880
Individual portfolio management fees	744.782.086
Commissions from operations with related parties	294.831.614
Commission from custodial services of authorized securities	480.537.065
Other commissions	29.827.902.052
	¢ <u>108.219.025.001</u>

(32) Income from interests in other companies

	December 2020
Local entities:	
Interest in Banprocesa SRL.	¢ 223.198.407
Interest in Bancrédito Agencia de Seguros S.A.	1.818.043
	¢ <u>225.016.450</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(33) Administrative expenses

Administrative expenses are detailed as follows:

	December 2020
Salaries and bonuses, permanent staff	61.922.709.293
Salaries and bonuses, contractors	2.162.644.690
Compensation for directors and auditors	254.624.887
Overtime	746.348.400
Per diem	291.942.156
Statutory Christmas Bonus	5.625.395.952
Vacation	5.621.130.687
Incentives	2.820.769
Fixed representation expenses	845.336.586
Other compensation	1.395.306.619
Contribution to severance payment	2.623.240.391
Social security charges	20.652.216.075
Refreshments	52.418.771
Uniforms	23.072.127
Training	298.782.242
Employee insurance	581.431.599
Assets for personal use	685.220
School bonus	7.651.125.742
Labor Capitalization Fund	1.784.040.092
Other personnel expenses	798.464.959
Outsourcing expenses	19.503.976.140
Transportation and communication expenses	5.184.165.642
Property insurance	205.730.664
Property maintenance and repair	5.831.529.198
Public utilities	2.719.615.572
By right of use-properties	3.721.552.871
By right of use-furniture, equipment, and other assets	1.062.281.085
Depreciation of property, plant and equipment	9.641.674.723
Amortization of leasehold property	474.387.304
Other infrastructure expenses	4.525.712.894
Overhead	25.865.388.140
	¢ 192.069.751.490

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(34) Legal profit sharing

Legal profit sharing (statutory allocations) of the period is detailed as follows:

	December 2020
Profit sharing for CONAPE	¢ 1.747.414.017
Profit sharing Instituto Nacional de Fomento Cooperativo	1.419.860.976
Profit sharing of National Emergency Commission	1.532.039.625
Profit sharing Public Pension Fund Operators	877.704.044
Profit sharing of Invalidity, Old Age, and Death Regime	<u>5.242.242.051</u>
	¢ <u>10.819.260.713</u>

As of December 31, 2020, there are not decreases in the legal allocations of the period's profits.

(35) Components of other comprehensive income

The components of other comprehensive income are detailed as follows:

	December 2020		
	Amount before taxes	Tax benefit (expense)	Net taxes
Adjustment for valuation of investments at fair value with changes through other comprehensive income	¢ (6.410.837.958)	1.574.187.653	(4.836.650.305)
Impairment – Investments at fair value through other comprehensive income	3.014.370.489	0	3.014.370.489
Exchange differences from translation effect of financial statements of foreign entities	<u>11.947.048.084</u>	<u>0</u>	<u>11.947.048.084</u>
	¢ <u>8.550.580.615</u>	<u>1.574.187.653</u>	<u>10.124.768.268</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(36) Operating leases

Lessee

Non-cancellable operating leases are payable as follows:

	December 2020
Less than one year	¢ 481.705.800
From one to five years	240.852.900
	¢ <u><u>722.558.700</u></u>

These leases correspond to furniture and equipment.

(37) Fair value of financial instruments

The fair values of the Bank's main financial assets and liabilities are as follows:

	December 2020	
	<u>Carrying amount</u>	<u>Fair value</u>
Cash and due from banks	¢ 803.047.856.879	803.047.856.879
Investments	1.422.226.389.458	1.404.261.910.170
Loan portfolio	3.872.075.337.959	3.797.164.693.061
	<u>6.097.349.584.296</u>	<u>6.004.474.460.110</u>
Demand deposits	2.670.460.239.035	2.670.460.239.035
Term deposits	1.765.488.529.810	1.756.778.173.323
Financial obligations	998.708.960.958	1.026.931.889.413
	¢ <u>5.434.657.729.803</u>	<u>5.454.170.301.771</u>

As of December 31, 2020, there are no subordinated obligations.

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

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

- b) Investments in financial instruments

For financial instruments through other comprehensive income, the fair value is based on market price quotes or quotes from brokers.

- 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) Term deposits and loans payable

Management determined the fair value of term 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 of 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.

(38) Segments

The Bank has defined its business segments based on the administrative and reporting structure, and on the structure of banking, stock brokerage, investment and pension fund management, and insurance brokerage services it provides.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, results of each segment are as follows:

	Bank	Pension Fund Operator	Investment Fund Manager	Brokerage House	Foreign Bank	Insurance Broker	Depósito Agrícola	Total	Eliminations	Consolidated
Assets										
Cash and due from banks	€ 733.128.044.604	126.450.872	2.230.633.561	567.180.616	103.892.108.532	848.015.309	30.318.219	840.822.751.713	(37.774.894.835)	803.047.856.878
Investment in financial instruments	1.263.953.609.423	6.613.726.000	7.355.482.256	49.508.424.809	85.260.784.007	9.018.189.307	750.298.087	1.422.460.513.889	(234.577.160)	1.422.225.936.729
Loan portfolio	2.832.062.814.549	0	0	0	905.787.280.721	0	0	3.737.850.095.270	0	3.737.850.095.270
Accounts and fees receivable	10.567.281.932	563.661.203	853.560.938	454.285.698	5.683.921.235	569.835.369	82.222.213	18.774.768.588	(3.485.809.201)	15.288.959.387
Foreclosed assets	45.392.977.656	0	0	0	19.625.780.627	0	39	65.018.758.322	1	65.018.758.323
Interest in other companies (net)	121.084.071.454	0	0	65.417.188	0	0	0	121.149.488.642	(120.547.706.944)	601.781.698
Property, furniture and equipment, net	135.405.802.729	422.881.886	557.726.533	374.629.317	8.173.113.730	393.703.071	245.784.563	145.573.641.829	(107.009.839)	145.466.631.990
Properties investments	6.441.924.521	0	0	0	0	0	0	6.441.924.521	0	6.441.924.521
Other assets	82.013.309.024	448.755.328	278.491.901	977.871.218	19.681.630.228	429.372.066	84.713.048	103.914.142.813	2	103.914.142.815
Total assets	€ 5.230.049.835.892	8.175.475.289	11.275.895.189	51.947.808.846	1.148.104.619.080	11.259.115.122	1.193.336.169	6.462.006.085.587	(162.149.997.976)	6.299.856.087.611
Liabilities and equity										
Liabilities										
Obligations with the public	€ 3.969.128.326.795	0	0	20.090.554.686	450.628.782.093	12.226.036	0	4.439.859.889.610	(3.911.120.769)	4.435.948.768.841
Obligations with the Central Bank of Costa Rica	2.500.208.320	0	0	0	0	0	0	2.500.208.320	0	2.500.208.320
Obligations with entities	489.297.292.335	441.980.878	616.970.590	7.078.016.732	535.335.923.928	433.057.151	206.735.111	1.033.409.976.725	(37.224.656.806)	996.185.319.919
Accounts payable and provisions	141.390.863.708	1.885.366.315	1.585.575.326	3.637.830.577	10.484.065.171	2.507.999.351	97.162.146	161.588.862.594	(466.513.456)	161.122.349.138
Other liabilities	34.156.939.759	0	0	0	3.948.865.014	41.010.138	264	38.146.815.175	0	38.146.815.175
Total liabilities	€ 4.636.473.630.917	2.327.347.193	2.202.545.916	30.806.401.995	1.000.397.636.206	2.994.292.676	303.897.521	5.675.505.752.424	(41.602.291.031)	5.633.903.461.393
Equity										
Capital	181.409.990.601	4.324.541.114	4.839.200.000	12.626.000.000	38.609.421.071	2.250.000.000	305.842.762	244.364.995.548	(62.955.004.947)	181.409.990.601
Unfunded capital contributions	0	339.245.414	0	0	0	0	0	339.245.414	(339.245.414)	0
Equity adjustments	55.958.372.953	50.379.955	(23.448.353)	916.608.492	56.491.654.297	28.974.445	484.301	113.423.026.090	(57.464.653.138)	55.958.372.952
Capital reserves	283.820.516.011	255.890.000	967.840.000	1.467.308.772	36.421.578.570	450.000.000	34.330.621	323.417.463.974	(39.596.947.963)	283.820.516.011
Prior periods retained earnings	13.464.953.148	367.569	437.916.745	2.885.192.110	14.489.541.354	2.493.199.547	590.607.095	34.361.777.568	(20.896.824.420)	13.464.953.148
Profit for the period	25.612.643.802	877.704.044	2.851.840.881	3.246.297.477	1.694.787.582	3.042.648.454	(41.826.131)	37.284.096.109	(11.671.452.307)	25.612.643.802
Development financing fund	33.309.728.460	0	0	0	0	0	0	33.309.728.460	0	33.309.728.460
Minority interest	0	0	0	0	0	0	0	0	72.376.421.244	72.376.421.244
Total equity	€ 593.576.204.975	5.848.128.096	9.073.349.273	21.141.406.851	147.706.982.874	8.264.822.446	889.438.648	786.500.333.163	(120.547.706.945)	665.952.626.218
Total liabilities and equity	€ 5.230.049.835.892	8.175.475.289	11.275.895.189	51.947.808.846	1.148.104.619.080	11.259.115.122	1.193.336.169	6.462.006.085.587	(162.149.997.976)	6.299.856.087.611
Debit contingent accounts	€ 314.178.618.537	0	0	0	121.418.228.397	0	0	435.596.846.934	0	435.596.846.933
Trust assets	€ 919.788.849.805	0	0	0	52.879.211.861	0	0	972.668.061.666	0	972.668.061.666
Trust liabilities	€ 379.680.643.674	0	0	0	0	0	0	379.680.643.674	0	379.680.643.674
Trust equity	€ 540.108.206.131	0	0	0	52.879.211.861	0	0	592.987.417.992	0	592.987.417.992
Other debit memoranda accounts	€ 20.374.911.227.431	1.388.453.642.542	753.207.743.033	645.908.328.812	1.446.068.567.793	0	2.973.801.686	24.611.523.311.297	0	24.611.523.311.297

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

	Bank	Pension Fund Operator	Investment Fund Manager	Brokerage House	Foreign Bank	Insurance Broker	Depósito Agrícola	Total	Eliminations	Consolidated
Financial income	313.360.375.165	486.180.458	957.123.181	5.357.430.429	57.535.311.042	893.073.291	13.438.031	378.602.931.597		378.252.650.075
Financial expenses	137.971.154.927	45.895.041	73.188.055	899.332.174	34.588.414.044	48.928.229	24.464.864	173.651.377.334	(1.404.714.154)	172.246.663.180
Expenses from allowance for assets impairment	53.982.443.783	47.849.841	127.176.465	212.632.301	4.373.833.452	107.931.121	548.537	58.852.415.500	1	58.852.415.501
Income from recovery of assets and decrease in allowance	33.019.312.371	0	71.097.338	275.703.099	0	39.679.374	329.256	33.406.121.438	0	33.406.121.438
Financial income	154.426.088.826	392.435.576	827.855.999	4.521.169.053	18.573.063.546	775.893.315	(11.246.114)	179.505.260.201	1.054.432.631	180.559.692.832
Other operating income	171.449.288.674	6.457.372.919	8.736.506.884	4.262.229.567	1.993.356.428	6.721.328.477	777.960.782	200.398.043.731	(16.400.411.990)	183.997.631.741
Other operating expenses	113.340.079.856	1.476.095.795	2.053.875.457	875.330.538	2.901.824.067	462.171.262	143.758.663	121.253.135.638	(4.504.973.148)	116.748.162.490
Gross operating income	212.535.297.644	5.373.712.700	7.510.487.426	7.908.068.082	17.664.595.907	7.035.050.530	622.956.005	258.650.168.294	(10.841.006.211)	247.809.162.083
Personnel expenses	94.664.738.946	2.093.235.368	2.805.567.077	2.549.227.409	8.828.037.768	1.984.912.482	408.018.207	113.333.737.257	0	113.333.737.257
Other administrative expenses	70.240.808.720	651.434.431	460.168.472	499.891.200	6.202.616.835	438.228.098	242.866.477	78.736.014.233	0	78.736.014.233
Administrative expenses	164.905.547.666	2.744.669.799	3.265.735.549	3.049.118.609	15.030.654.603	2.423.140.580	650.884.684	192.069.751.490	0	192.069.751.490
And profit sharing	47.629.749.978	2.629.042.901	4.244.751.877	4.858.949.473	2.633.941.304	4.611.909.950	(27.928.679)	66.580.416.804	(10.841.006.211)	55.739.410.593
Income tax	13.624.899.236	794.763.527	1.266.842.152	1.467.249.554	329.897.241	1.431.131.245	12.305.451	18.927.088.406	0	18.927.088.406
Deferred income tax	0	0	0	19.139.915	621.733.928	11.667.109	0	652.540.952	0	652.540.952
Decrease in income tax	1.065.758.514	0	0	13.665.663	12.477.447	10.667.752	0	1.102.569.376	0	1.102.569.376
Profit sharing	9.457.965.454	956.575.330	126.068.844	139.928.190	0	137.130.894	1.592.001	10.819.260.713	0	10.819.260.713
Net profit for the year	25.612.643.802	877.704.044	2.851.840.881	3.246.297.477	1.694.787.582	3.042.648.454	(41.826.131)	37.284.096.109	(10.841.006.211)	26.443.089.898
Results for the period attributable to minority interests	0	0	0	0	0	0	0	0	(830.446.096)	830.446.096
Results for the period attributable to the comptroller	25.612.643.802	877.704.044	2.851.840.881	3.246.297.477	1.694.787.582	3.042.648.454	(41.826.131)	37.284.096.109	(11.671.452.307)	25.612.643.802
Net income for the periods	25.612.643.802	877.704.044	2.851.840.881	3.246.297.477	1.694.787.582	3.042.648.454	(41.826.131)	37.284.096.109	(11.671.452.307)	25.612.643.802

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(39) 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 Sistema), 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 system, aware that it contributes to the improvement of institutional processes, and hence to the achievement of objectives and goals.

Corporate risk management is led by Risk Management and Regulations Control Reporting to the General Board of Directors, which has various administrative areas, 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 entity 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 objective and goals.

General Risk Principles and Policies

The Conglomerate has policies, strategies and other corporate regulations for an effective comprehensive risk management, thus providing administrative, legal and technical certainty to the System, supporting the decision making:

- A robust regulatory framework to provide legal, technical and administrative certainty for the functioning, evaluation and improvement of the System.
- 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- 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.

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
		Non- financial	Liquidity
	Strategic		
	Operating		
	Legal		
	Technological		
	Reputational		
	Environmental and social		
	Regulatory compliance		
	Money laundering and financing of terrorism, financing of proliferation of weapons of mass destruction and financing of organized crime (LC/FT/FPADM/FDO-for its acronym in Spanish)		

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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. To guarantee the financial solidity of the Conglomerate	1. Organizational strategy	Strategic	Equity Sufficiency Index
	1. Treasury operations		
2. Support the country's performance	1. Security management	Operative	Expected loss due to operational risk (last 12 months)
	2. Management of processes and regulations		
	3. IT Security		
	1. Loan granting	Credit	Percentage of the loan portfolio with arrears of 1 to 30 days.
	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).		
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
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 reviewed and updated periodically by the risk taker and risk managing areas and is approved by its board of directors. According to this profile, 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.

Process of comprehensive risk management

The process of risk assessment includes identification, analysis, evaluation, Management, review, documentation, and risk communication.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Types of risk assessments

The process of risk management includes qualitative and quantitative assessments. The first correspond to specific analysis of the objectives of activities and substantial processes of the BCR Financial 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 Conglomerate Financiero BCR members, incorporating flow of processes and internal control activities to minimize risk exposure.

Risk assesment generates various alerts, recommendations, and treatment of risk plans, contributing to its overall and specific mitigation. contributing that risks are located at an acceptable level of exposure, congruent with the defined risk profile, supporting the sustainability, solvency, and value of the members of the Conglomerate.

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.

Evaluation of the effectiveness and maturity of the System

Risk managing areas apply critical judgment on the effectiveness and maturity of the System 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 BCR Financial 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

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.

For the quantitative analysis of the loan portfolio, there is a model for the quantification of the expected loss, the Value at Risk (VaR) and economic capital, which is aligned with the standards of Basel II.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

In the case of credit risk of the investment portfolio, disclosed in Note 5: Investments in Financial Instruments, there is a methodology for determining the expected loss under IFRS 9, which has been improved during 2020. The determination of a significant increase in risk is made by means of two factors, changes in the issuer's international risk rating, issued by risk rating agencies and sustained changes in the prices of "Credit Default Swaps" associated with the issuer. Therefore, in the face of variations in the issuer's risk ratings, increases in the expected loss may occur, especially in the issuer Costa Rican government, in which the Bank keeps a significant concentration, given the structure of the Costa Rican market. On the other hand, it is important to note that the measurement of the expected loss is made for each instrument considering the issuer's risk, while default is understood only when an issuer stops paying.

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 established on exposure to credit risk, to control exposure levels, both at loan portfolio and investments (by issuer).

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 December 2020, the percentage of arrears greater than 90 days was 2.54% (3.34% as of September 2020). The latter indicator is 1.46 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 32.26% (32.39% as of September, 2020, respectively) of the total portfolio. It is important to mention that 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

Also, the commercial area is kept informed on the inherent risks of the economic activities associated with credit underwriting, through specific studies and analysis of the credit underwriting goals previously approved by the General Board of Directors, 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 begins. The foregoing allows for a buffer of resources to mitigate eventual defaults that may occur in the portfolio, thus maintaining a conservative profile. By the end of December 2020, the expected loss of the investment portfolio corresponded to 0.21% of the portfolio, 0.19% in September.

The expected losses of the investment portfolio are shown in the following table:

Expected losses of the investment portfolio of the BCR Conglomerate			
By currency			
January and December, 2020			
Value adjustment for losses	Twelve-months expected credit losses	Lifetime expected credit losses	Impaired financial assets
Value adjustment for losses			
As of January 30, 2020			
Colones	308.378.402	472.850.153	119.976.567.000
US dollars	351.737	290.459	44.343.000
UDES	0	213.029	14.784.800

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Value adjustment for losses

As of December 31, 2020

Colones	1.466.116.838	280.034.268	44.678.950.000
US dollars	1.423.730	162.122	46.775.000
UDES	0	187.957	14.784.800

Transfer to 12-months expected credit losses

Colones	1.157.728.447	(167.965.408)	(75.296.717.000)
US dollars	1.071.992	(128.336)	2.432.000
UDES	0	(25.073)	0

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

	December 2020
Banco de Costa Rica	
Loan portfolio, gross	¢ 2.935.641.227.054
Plus, interest receivable	32.602.387.644
Less, allowance for impairment	(119.006.689.666)
Loan portfolio, net	¢ 2.849.236.925. 033
Banco Internacional de Costa Rica, S.A. and subsidiary	
Loan portfolio, gross	¢ 914.506.024.070
Plus, interest receivable	6.499.279.471
Less, allowance for impairment	(15.218.022.819)
Loan portfolio, net	¢ 905.787.280.722
Total consolidated loan portfolio, net	¢ 3.755.024.205. 754

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank's financial instruments exposed to credit risk are as follows:

	Note	Direct Loan Portfolio December <u>2020</u>	Contingent Loan Portfolio December <u>2020</u>
Principal	6a	¢ 2.935.641.227.054	0
Interest		32.602.387.644	0
		<u>2.968.243.614.698</u>	<u>0</u>
Allowance for bad loans		<u>(118.682.677.549)</u>	<u>(324.012.116)</u>
Carrying amount		<u>2.849.560.937.149</u>	<u>(324.012.116)</u>
Loan portfolio			
Total balance:			
A1		2.252.641.974.421	216.785.669.119
A2		51.079.575.869	993.773.116
B1		317.076.523.159	4.750.549.387
B2		18.952.645.155	111.877.247
C1		50.179.872.607	6.386.300.335
C2		17.670.359.057	73.620.031
D		46.374.944.688	1.036.645.186
E		161.787.877.221	2.426.360.346
1		51.254.492.919	0
2		63.731.314	0
3		348.996.233	0
4		723.703.593	0
6		88.918.462	0
		<u>2.968.243.614.698</u>	<u>232.564.794.767</u>
Allowance for bad loans		<u>(81.874.379.225)</u>	<u>(301.501.990)</u>
Carrying amount, net		<u>2.886.369.235.473</u>	<u>232.263.292.777</u>
Carrying amount		2.968.243.614.698	232.564.794.767
Allowance for bad loans		(81.874.379.225)	(301.501.990)
(Excess) inadequacy of allowance over structural estimate		<u>(36.808.298.324)</u>	<u>(22.510.126)</u>
Carrying amount, net	¢	<u>2.849.560.937.149</u>	<u>232.240.782.651</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The assessed loan portfolio with allowance is detailed as follows:

As of December 31, 2020

Loan portfolio	Direct Loan Portfolio				Contingent Loan Portfolio	
	Principal	Covered balance	Overdraft	Allowance	Principal	Allowance
Direct generic allowance						
A1	¢ 2.252.641.974.421	1.616.745.472.141	635.896.502.295	(11.263.209.927)	216.785.669.119	(150.417.045)
A2	51.079.575.869	43.707.121.566	7.372.454.303	(255.397.880)	993.773.116	0
1	51.254.492.919	24.067.555.806	27.186.937.112	(131.646.647)	0	0
	<u>2.303.721.550.290</u>	<u>1.660.452.593.707</u>	<u>643.268.956.598</u>	<u>(11.518.607.807)</u>	<u>217.779.442.235</u>	<u>(150.417.045)</u>
Direct specific allowance						
B1	317.076.523.159	242.166.880.501	74.909.642.657	(4.956.316.537)	4.750.549.387	(17.061.287)
B2	18.952.645.155	17.753.340.695	1.199.304.460	(208.697.151)	111.877.247	0
C1	50.179.872.607	41.371.337.690	8.808.534.917	(2.418.190.331)	6.386.300.335	(14.894.140)
C2	17.670.359.057	15.524.240.196	2.146.118.861	(1.150.680.632)	73.620.031	0
D	46.374.944.688	36.814.962.263	9.559.982.425	(7.027.310.418)	1.036.645.186	(117.047.059)
E	161.787.877.221	99.737.215.863	62.050.661.358	(54.442.469.520)	2.426.360.346	(2.082.459)
1	51.254.492.919	24.067.555.806	27.186.937.112	(131.646.647)	0	0
2	63.731.314	61.710.563	2.020.751	(409.590)	0	0
3	348.996.233	336.391.423	12.604.810	(4.833.160)	0	0
4	723.703.593	705.766.328	17.937.265	(12.497.464)	0	0
6	88.918.462	86.631.652	2.286.810	(2.719.968)	0	0
	<u>664.522.064.408</u>	<u>478.626.032.980</u>	<u>185.896.031.426</u>	<u>(70.355.771.418)</u>	<u>14.785.352.532</u>	<u>(151.084.945)</u>
¢	<u>2.968.243.614.698</u>	<u>2.139.078.626.687</u>	<u>829.164.988.024</u>	<u>(81.874.379.225)</u>	<u>232.564.794.767</u>	<u>(301.501.990)</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Loan portfolio	Direct Loan Portfolio				Contingent Loan Portfolio	
	Principal	Covered balance	Overdraft	Allowance	Principal	Allowance
Aging loan portfolio						
Direct generic allowance						
Up to date	¢ 2.267.270.150.153	1.630.532.744.207	636.737.405.959	(11.466.141.660)	217.779.442.235	(150.417.046)
Equal or less than 30 days	35.941.488.451	29.533.210.561	6.408.277.890	(181.544.128)	0	0
Equal or less than 60 days	509.911.688	386.638.939	123.272.749	(2.568.667)	0	0
	<u>2.303.721.550.292</u>	<u>1.660.452.593.707</u>	<u>643.268.956.598</u>	<u>(11.650.254.455)</u>	<u>217.779.442.235</u>	<u>(150.417.046)</u>
Direct specific allowance						
Up to date	522.783.216.599	386.234.620.346	136.548.596.253	(30.572.674.886)	14.741.352.532	(149.284.855)
Equal or less than 30 days	23.306.055.364	17.517.152.270	5.788.903.094	(4.422.115.734)	0	0
Equal or less than 60 days	26.170.163.849	18.632.086.433	7.538.077.416	(2.072.318.302)	0	0
Equal or less than 90 days	12.930.556.366	9.033.452.404	3.897.103.963	(1.922.228.958)	0	0
Equal or less than 180 days	10.277.689.598	6.267.983.386	4.009.706.211	(3.422.480.751)	0	0
More than 180 days	69.054.382.630	40.940.738.141	28.113.644.489	(27.812.306.139)	44.000.000	(1.800.089)
	<u>664.522.064.406</u>	<u>478.626.032.980</u>	<u>185.896.031.426</u>	<u>(70.224.124.770)</u>	<u>14.785.352.532</u>	<u>(151.084.944)</u>
	¢ <u>2.968.243.614.698</u>	<u>2.139.078.626.687</u>	<u>829.164.988.024</u>	<u>(81.874.379.225)</u>	<u>232.564.794.767</u>	<u>(301.501.990)</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Following is an analysis of the balance of the loan portfolio of Banco de Costa Rica, assessed individually with allowance, according to gross and net amounts, after deducting the allowance for loan losses, by risk classification in accordance with the applicable regulations:

As of December 31, 2020	Loans receivable	
	Gross	Net
Risk category:		
A1	¢ 2.252.641.974.421	2.241.378.764.495
A2	51.079.575.869	50.824.177.989
B1	317.076.523.159	312.120.206.622
B2	18.952.645.155	18.743.948.005
C1	50.179.872.607	47.761.682.276
C2	17.670.359.057	16.519.678.424
D	46.374.944.688	39.347.634.270
E	161.787.877.221	107.345.407.701
1	51.254.492.919	51.122.846.271
2	63.731.314	63.321.724
3	348.996.233	344.163.073
4	723.703.593	711.206.129
5		
6	88.918.462	86.198.494
	¢ <u>2.968.243.614.698</u>	<u>2.886.369.235.473</u>

In compliance with SUGEF Directive 1-05, as of December 31, 2020, the Bank must maintain a minimum allowance in the amount of ¢82.175.881.215 of which ¢81.874.379.225 is allocated to the valuation of the direct loan portfolio and ¢301.501.990 to the contingent loan portfolio. Additionally, the countercyclical allowance is of ¢4.779.400.343.

Following is an analysis of the balances of BICSA's loan portfolio, individually evaluated with an allowance according to the gross amount and the net amount after deducting the allowance for doubtful accounts resulting from the risk assessment in accordance with the applicable regulations:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

	December 2020
Banco Internacional de Costa Rica, S.A. and subsidiaries	
Principal	¢ 914.506.022.835
Interest	6.499.279.472
	921.005.302.307
Allowance for doubtful accounts	(15.218.022.819)
Carrying amount	¢ 905.787.279.488
Loan portfolio, net of allowance	897.062.716.852
At amortized cost	
Level 1: Normal or low risk	822.441.293.412
Level 2: Special mention	55.274.912.419
Level 3: Subnormal	18.341.168.216
Level 4: Doubtful	1.173.022.473
Level 5: Uncollectable	17.275.626.316
	914.506.022.836
Allowance for impairment	(15.218.022.819)
Carrying amount	899.288.000.017
Impaired renegotiated loans	
Gross amount	15.632.165.685
Impaired amount	15.632.165.685
Allowance for impairment	2.076.786.095
Total, net	13.555.379.590
Not in arrears or impaired	
Level 1: Normal or low risk	822.441.293.412
Level 2: Special mention	55.274.912.419
Sub-total	877.716.205.831
Individually impaired	
Level 3: Subnormal	18.341.168.216
Level 4: Doubtful	1.173.022.473
Level 5: Uncollectable	17.275.626.315
Sub-total	36.789.817.004

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Allowance for impairment		
Specific		14.809.639.362
Collective		408.383.457
Total allowance for impairment		15.218.022.819
Clients' obligations for acceptances		
Carrying amount	¢	2.225.283.165
Interest receivable	¢	6.499.279.471
Net loan portfolio (carrying amount)	¢	905.787.279.488

As of December 31, 2020, the allowance for impairment of BICSA's loan portfolio is of ¢15.218.022.819.

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

	December 2020	
	Direct Loan Portfolio	Contingent Loan Portfolio
Trade	¢ 275.150.270.515	35.240.976.550
Manufacturing	459.373.100.944	2.038.441.568
Construction, purchase, and repair of real estate	1.145.267.404.096	16.828.315.487
Agriculture, livestock, hunting, and related services	193.594.861.611	33.638.347
Fishing and aquaculture	11.172.166	1.379.117.338
Consumption	299.542.513.969	109.918.641.385
Education	3.431.935.531	0
Transportation	55.192.075.081	96.033.143
Financial activities and stock exchange	4.064.820.107	0
Electricity, telecom, gas, and water	54.793.466.607	0
Services	1.246.294.297.451	193.900.688.356
Hospitality	103.285.509.304	0
Mining and quarries	41.301.001	0
Real estate, business, and leasing activities	8.666.712.945	0
Public Administration	0	1.754.376.726
Government financial See notes 6 and 19	1.438.340.001	19.641.251
	3.850.147.781.329	361.209.870.151
Other contingencies	0	74.386.976.783
	¢ 3.850.147.781.329	435.596.846.934

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The concentration by geographical region of the loan portfolio of the Subsidiarie Banco Internacional de Costa Rica, S.A., is detailed as follows:

	December 2020
Germany	¢ 2.232.940.771
Brasil	6.269.916.100
China	960.641.025
Colombia	3.155.924.645
Costa Rica	361.845.897.872
Denmark	987.538.021
Ecuador	43.896.273.372
El Salvador	53.395.655.535
Spain	2.798.103.613
United States of America	23.738.170.880
Guatemala	39.184.066.907
Honduras	76.285.317
England	4.275.130.904
British Virgin Islands	3.072.895.943
México	13.701.223.507
Nicaragua	32.944.791.110
Panama	291.427.430.620
Perú	21.002.496.051
Dominican Republic	2.965.509.200
Russia	115.996.843
Uruguay	814.264.998
Others	5.644.870.836
	¢ <u>914.506.024.070</u>

The concentration by geographical region of the loan portfolio of Banco de Costa Rica is as follows:

	December 2020
Costa Rica	¢ 2.935.641.227.054
	¢ <u>2.935.641.227.054</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, the Bank keeps trust commissions in the amount of por ¢1.545.

The balance of foreclosed assets is as follows (See note 7):

		December 2020
Properties	¢	152.481.663.041
Others		693.972.758
	¢	153.175.635.799

BICSA, has a five (5) year term to transfer the real property acquired as payment of unpaid loans as of the registration date of the property; if after such a term the property has not been sold, there must be an independent appraisal to estimate its value.

On the other hand, a reserve is made in the equity account through the following allocation: a) non-distributed profits and b) profits of the year. The aforementioned reserve will be kept until an effective transfer of the acquired property has taken place.

The direct loan portfolio by type of guarantee is detailed below (See notes 6 and 19):

Guarantee		December 2020
Pledged assets	¢	50.327.902.319
Collections		94.686.604.380
Fiduciary		819.791.124.821
Mortgage		1.524.137.792.109
Chattel		207.946.698.879
Others		1.153.257.658.821
	¢	3.850.147.781.329

As of December 31, 2020, the 45% 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 debugs information on reported data of economic interest groups as part of their responsibility to identify significant administrative and equity relationships among debtors with total active operations. As of December 31, 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

As of December 2020, 2020:

No.	Percentage	Band	Total amount	N° of customers
1	0-4,99%	23.261.525.331 ¢	42.013.037.738	255
2	5-9,99%	46.523.050.661	349.185.527.850	82
3	10-14,99%	69.784.575.992	0	0
4	15-20%	93.046.101.322	853.149.074.509	259
Total			¢ 1.244.347.640.097	596

(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 money 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Risk 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.

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 outflow of deposits of the public by currency, match at one- and three months match by currency and liquidity coverage ratio (ICL) by currency.
- Price risk: VaR of the Investment portfolio through internal and regulatory models.
- Exchange risk: Sensitivity 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 12.01%, 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 4).

Demand deposits increased by 20.46% 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 11).

Wholesale funding decreases by 19.711% 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 14 of this document).

As of December 31, 2020, regarding regulatory indicators, the liquidity coverage indicator (ICL) was of 1.355 times in local currency and 1.58 times in US dollars, complying with the 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 December 2020 are observed:

	December 2020
Liquidity coverage indicator (colones)	1.35
Liquidity coverage indicator (US Dollars)	1.58
Regulatory limit	<u>1.00</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, the results of term matches are shown as follows:

Regulatory liquidity matches by currency and term				
Indicator	Interpretation	Observation	Approved levels	
1-month term matching US Dollars	Ratio between assets and liabilities with account's volatitlity	1.70	Limite:	1.10
1-month term matching colones		1.44	Limite:	1.00
3 months term matching US Dollars		1.16	Limite:	0.94
3-months term matching colones		1.12	Limite:	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.

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 situation, for decision-making.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The maturity dates of the Bank's assets and liabilities are as follows:

As of December 31, 2020

Assets	Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More tan 365 days	Items overdue for more than thirty days	Total
Availabilities	¢ 265.713.592.355	0	0	0	0	0	93.806.100	0	265.807.398.455
Legal cash requiremnt BCCR	343.996.390.339	50.777.837.368	23.238.100.402	19.448.809.375	39.271.332.953	40.970.726.749	19.537.261.238	0	537.240.458.424
Investment in securities	581.519.871	250.881.679.667	24.086.976.013	16.182.628.693	127.942.664.270	211.814.946.433	772.771.495.223	0	1.404.261.910.170
Interest on investments	3.435.887	7.013.268.034	7.022.342.639	1.437.668.691	2.132.467.560	67.794.239	287.502.238	0	17.964.479.288
Loan portfolio	73.093.973.417	91.775.022.004	103.553.002.439	107.841.273.598	246.976.693.578	195.284.585.007	2.890.230.255.998	124.218.334.598	3.832.973.140.639
Interest on loan portfolio	237.315.523	6.035.027.692	6.225.663.406	5.483.003.155	3.469.309.417	6.289.739.912	3.931.276.535	7.430.331.475	39.101.667.115
	¢ <u>683.626.227.392</u>	<u>406.482.834.765</u>	<u>164.126.084.899</u>	<u>150.393.383.512</u>	<u>419.792.467.778</u>	<u>454.427.792.340</u>	<u>3.686.851.597.332</u>	<u>131.648.666.073</u>	<u>6.097.349.054.091</u>
Liabilities									
Obligations with the public	¢ 2.631.441.696.809	434.150.755.399	213.848.910.571	194.758.501.550	340.851.690.772	375.155.114.694	229.258.528.577	0	4.419.465.198.372
Obligations with BCCR	0	2.500.208.320	0	0	0	0	0	0	2.500.208.320
Obligations with financial entities	56.719.860.224	264.914.100.863	88.604.206.763	119.655.999.300	119.523.719.218	143.491.335.486	198.677.036.863	0	991.586.258.717
Charges payable on obligations	1.211.523.088	4.040.554.689	3.649.541.918	2.444.834.556	3.824.350.693	2.972.779.230	2.962.480.219	0	21.106.064.393
	<u>2.689.373.080.121</u>	<u>705.605.619.271</u>	<u>306.102.659.252</u>	<u>316.859.335.406</u>	<u>464.199.760.683</u>	<u>521.619.229.410</u>	<u>430.898.045.659</u>	<u>0</u>	<u>5.434.657.729.802</u>
Asset-liability gap	¢ <u>(2.005.746.852.729)</u>	<u>(299.122.784.506)</u>	<u>(141.976.574.353)</u>	<u>(166.465.951.894)</u>	<u>(44.407.292.905)</u>	<u>(67.191.437.070)</u>	<u>3.255.953.551.673</u>	<u>131.648.666.073</u>	<u>662.691.324.289</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(d) Price risk of the portfolio

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

In the case of own funds, a concentration of 59.09% 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 value at risk of the investment portfolio measures the sensitivity of suffering a loss during a determined period by adjustments in investment instruments.

Following are the results of the VaR methodology-SUGEF 03-06, considering both portfolios, which have had an upward trend due to the volatility of the prices of investment instruments because of the COVID-19 pandemic:

	December 2020
VaR	¢ 7.128.609.927

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 December 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 December 31, 2020, a sensitivity analysis on possible variations in interest rates was developed.

Sensitivity to an increase in the interest rate of investments

	December 2020
Investments in financial instruments	¢ 753.655.659.848
Increase in rates by 1%	193.762.699
Increase in rates by 2%	¢ 387.525.398

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Sensitivity to a decrease in the interest rate of investments

		December 2020
Investments in financial instruments	¢	753.655.659.848
Decrease in rates by 1%		193.762.699
Decrease in rates by 2%	¢	<u>387.525.398</u>

Sensitivity to an increase in the interest rate of loan portfolio

		December 2020
Loan portfolio	¢	3.056.756.166.060
Increase in rates by 1%		1.346.553.773
Increase in rates by 2%	¢	<u>2.730.186.649</u>

Sensitivity to a decrease in the interest rate of loan portfolio

		December 2020
Loan portfolio	¢	3.056.756.166.060
Decrease in rates by 1%		1.346.553.773
Decrease in rates by 2%	¢	<u>2.730.186.649</u>

Sensitivity to an increase in the interest rate of obligations with the public

		December 2020
Obligations with the public	¢	3.947.112.080.455
Increase in rates by 1%		3.127.746.509
Increase in rates by 2%	¢	<u>6.225.493.017</u>

Sensitivity of a decrease in the interest rate of obligations with the public

		December 2020
Obligations with the public	¢	3.947.112.080.455
Decrease in rates by 1%		3.127.746.509
Decrease in rates by 2%	¢	<u>6.225.493.017</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Sensitivity to an increase in the interest rate of term financial obligations

		December 2020
Financial term obligations	¢	<u>287.572.604</u>
Increase in rates by 1%		147.932.140
Increase in rates by 2%	¢	<u><u>295.864.280</u></u>

Sensitivity of a decrease in the interest rate of term financial obligations

		December 2020
Financial term obligations	¢	<u>287.572.604</u>
Decrease in rates by 1%		147.932.140
Decrease in rates by 2%	¢	<u><u>295.864.280</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, interest rate terms for assets and liabilities are matched as follows:

	Effective interest rate	1 to 30 days	31 to 90 days	91 to 180 days	181 to 360 days	361 to 720 days	More than 720 days	Total
Colones:								
Assets								
Investment in securities	6.81%	¢ 78.322.850.291	34.049.786.513	103.518.380.575	143.964.789.356	84.155.942.775	445.585.098.627	889.596.848.137
Loan portfolio	9.06%	1.060.621.611.327	206.664.539.378	175.220.476.416	273.324.955.888	114.073.710.830	172.315.940.626	2.002.221.234.465
Total recovery of assets (*)		<u>1.138.944.461.618</u>	<u>240.714.325.891</u>	<u>278.738.856.991</u>	<u>417.289.745.244</u>	<u>198.229.653.605</u>	<u>617.901.039.253</u>	<u>2.891.818.082.602</u>
Liabilities								
Obligations with the public		238.668.857.824	240.143.160.375	182.034.748.935	30.607.021.726	189.156.036.130	34.433.506.881	915.043.331.871
Demand deposits	1.66%							
Term deposits	4.86%							
Obligations with the Central Bank of Costa Rica		2.500.208.320	0	0	0	0	0	2.500.208.320
Obligations with financial entities	0.03%	18.957.380.202	22.162.645.796	24.594.204.486	0	30.826.362.409	0	96.540.592.893
Total matured liabilities (*)		<u>260.126.446.346</u>	<u>262.305.806.171</u>	<u>206.628.953.421</u>	<u>30.607.021.726</u>	<u>219.982.398.539</u>	<u>34.433.506.881</u>	<u>1.014.084.133.084</u>
Asset and liability gap		<u>¢ 878.818.015.272</u>	<u>(21.591.480.280)</u>	<u>72.109.903.570</u>	<u>386.682.723.518</u>	<u>(21.752.744.934)</u>	<u>583.467.532.372</u>	<u>1.877.733.949.518</u>
US Dólares:								
Assets								
Investment in securities	3.72%	¢ 221.041.893.552	80.150.923.730	124.670.112.277	74.138.328.386	84.661.188.968	164.307.444.938	748.969.891.851
Loan portfolio	6.49%	721.906.313.075	563.873.792.946	267.991.905.014	102.093.814.594	51.071.304.718	150.758.002.892	1.857.695.133.239
Total recovery of assets (*)		<u>942.948.206.627</u>	<u>644.024.716.676</u>	<u>392.662.017.291</u>	<u>176.232.142.980</u>	<u>135.732.493.686</u>	<u>315.065.447.830</u>	<u>2.606.665.025.090</u>
Liabilities								
Obligations with the public		244.805.325.828	110.005.725.503	74.324.017.989	93.432.241.989	97.960.807.334	26.069.147.418	646.597.266.061
Demand deposits	0.21%							
Term deposits	1.52%							
Obligations with financial entities	0.63%	23.134.764.356	174.528.323.524	88.657.335.086	114.256.069.918	124.211.123.876	51.587.453.899	576.375.070.659
Total matured liabilities (*)		<u>267.940.090.184</u>	<u>284.534.049.027</u>	<u>162.981.353.075</u>	<u>207.688.311.907</u>	<u>222.171.931.210</u>	<u>77.656.601.317</u>	<u>1.222.972.336.720</u>
Asset and liability gap		<u>¢ 675.008.116.443</u>	<u>359.490.667.649</u>	<u>229.680.664.216</u>	<u>(31.456.168.927)</u>	<u>(86.439.437.524)</u>	<u>237.408.846.513</u>	<u>1.383.692.688.370</u>

(*) Sensible to interest rates

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Within the gap report (rate-sensitive assets and liabilities) in local currency, a total difference of asset recovery less maturity of liabilities as of December 31, 2020, for ₡1.880.234.752.982 while in foreign currency the same difference is of ₡1.383.692.688.370 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 December 2020 the total amount in local currency was of ₡394.723.716.572, while in foreign currency, the collected data for the compliance of obligations was of ₡267.967.607.717, which 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 Euros. These currencies 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: term matching of assets and liabilities denominated in foreign currency and sensitivity of the foreign currency position.

During the third quarter of 2020, the exchange rate has had an upward trend, resulting in a daily volatility of 0.60% at the end of December.

To comply with the Own Position in Foreign Currency, the Treasury Management had to maintain a positive position in foreign currency, reaching US\$236 million (US\$235 million as of December 2019).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The monetary assets and liabilities in US dollars are detailed as follows:

	December
	2020
Assets:	
Cash and due from banks	US\$ 627.786.440
Investment in financial instruments	893.505.711
Loan portfolio	2.950.578.946
Accounts and interest receivable	11.169.487
Interest in the capital of companies	0
Other assets	35.534.173
Total assets	<u>4.518.574.757</u>
Liabilities:	
Obligations with the public	2.834.012.985
Other financial obligations	1.293.962.636
Other accounts payable and provisions	40.797.322
Other liabilities	28.514.040
Total liabilities	<u>4.197.286.983</u>
Net position	US\$ <u>321.287.774</u>

From January 2020 the valuation of monetary assets and liabilities in foreign currency is carried out with reference to the purchase exchange rate set by the BCCR the last business day of each month (previously the purchase exchange rate was used). For December 31, 2020, the exchange rate of ¢617.30 per US\$1.00 (¢570.09 per US \$1.00 in December 2019) was used.

The net position is not covered with any instrument; however, the Bank considers it remains at an acceptable level for buying and selling US dollars in the market at the time it is considered as necessary.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The following table shows the possible annual profit (loss) if there are variations of 5 percentage points in the exchange rates, respectively:

		December 2020
Net position	US\$	321.287.775
		617.30
5% increase in the exchange rate		30.87
Profit	¢	<u>9.918.153.614</u>

Sensibility to a decrease in the exchange rate

		December 2020
Net position	US\$	321.287.775
Closing exchange rate		617.30
5% decrease in the exchange rate		(30.87)
Ganancia	¢	<u>(9.918.153.614)</u>

Assets and liabilities in Euros are detailed as follows:

		December 2020
Assets:		
Cash and due from banks	EUR€	7.344.314
Other assets		74
Total assets		<u>7.344.388</u>
Liabilities:		
Obligations with the public		5.020.732
Other financial obligations		643.414
Other accounts payable and provisions		32.776
Other liabilities		773.368
Total liabilities		<u>6.470.290</u>
Net position (surplus assets on monetary liabilities)	EUR€	<u>874.098</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, in compliance with SUGEF's regulations, the term matching of the most important US dollars (US\$) accounts are as follows:

Assets		Demand	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 365 days	More than 365 days	Past due for over 30 days	Total
Cash and due from banks	US\$	271.869.675	0	0	0	0	0	135.762	0	272.005.437
Legal reserve account-BCCR		211.148.502	39.557.157	13.159.665	10.470.076	28.738.228	31.506.404	21.200.970	0	355.781.002
Investments in securities		261.913	316.489.732	22.615.493	2.003.263	82.846.667	106.222.370	355.867.100	0	886.306.538
Interest on investments		0	884.518	4.450.428	37.011	1.488.516	48.745	289.955	0	7.199.173
Loan portfolio		118.409.158	103.429.178	126.900.860	142.698.387	292.301.811	177.476.684	1.980.081.849	69.448.283	3.010.746.210
Interest on loans		384.441	3.022.118	6.796.741	5.745.512	1.779.809	2.314.729	6.116.691	3.576.729	29.736.770
	US\$	<u>602.073.689</u>	<u>463.382.703</u>	<u>173.923.187</u>	<u>160.954.249</u>	<u>407.155.031</u>	<u>317.568.932</u>	<u>2.363.692.327</u>	<u>73.025.012</u>	<u>4.561.775.130</u>
Liabilities										
Obligations with the public	US\$	1.363.453.526	326.209.562	134.644.962	138.991.083	259.498.410	315.196.301	283.717.720	0	2.821.711.564
Obligations with financial entities		48.232.216	281.859.086	124.382.804	177.592.991	144.629.873	193.942.576	316.862.524	0	1.287.502.070
Charges payable on obligations		324.887	2.233.663	3.048.555	2.621.051	3.437.774	2.771.109	4.028.219	0	18.465.258
		<u>1.412.010.629</u>	<u>610.302.311</u>	<u>262.076.321</u>	<u>319.205.125</u>	<u>407.566.057</u>	<u>511.909.986</u>	<u>604.608.463</u>	<u>0</u>	<u>4.127.678.892</u>
Asset and liability gaps	US\$	<u>(809.936.940)</u>	<u>(146.919.608)</u>	<u>(88.153.134)</u>	<u>(158.250.876)</u>	<u>(411.026)</u>	<u>(194.341.054)</u>	<u>1.759.083.864</u>	<u>73.025.012</u>	<u>434.096.238</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

As of December 31, 2020, the financial statements show a net foreign exchange gain of ₡6.483.435.881.

(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 December show that the Bank's capital levels are sufficient to cover the risks associated with its business.

(h) Systemic risk

Systemic Risk refers to the risk of a complete system collapse rather than a simple failure of individual parts. In a financial context, it denotes the risk of a cascading failure in the financial sector, caused by links within the system, resulting in a severe economic recession.

Banco de Costa Rica is the second bank in total assets in the country and one of the most active issuers in the national stock market.

The assets of the BCR Financial Conglomerate are the size equivalent to 52.57% of the national production.

Due to the size and complexity of its operations, the BCR is a systemic entity; therefore, its performance and the decisions taken have effects on the National Financial System.

The National Banking System has a medium concentration level, where BNCR, BCR, BPDC and BAC are the main participants.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The systemic risk analysis is carried out considering the size, deposits, investment structure, concentration indicators applying methodologies such as the *Herfindahl Hirshman* Index, ratio of total assets / GDP and *Granger* causality networks, which allow obtaining the concentration, the size and infection, so that the information generated can be easily used for decision-making at different levels of the organization.

(i) Operational risk management

According to previous statements in compliance with the guidelines developed in the agreements of the Basel Committee and the intentions of the Supervisor, operating or operational risk is defined as the risk of loss resulting from inadequate use or failure of processes, personnel and internal systems or due to external events. This definition includes technological and legal risks, according to the generalized definition and the previous committee, 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.

Systemic risks, in their essence of correlation of losses, have made it necessary to strengthen the assessment of operational risk. Thus, in the assessments carried out, the identification and treatment of external factors that may directly affect potential risk events have been implemented. Currently in the Institution, events originated by external incidents have been identified, as well as those caused by failures in processes, systems or people.

On the other hand, the Covid-19 pandemic has increased alerts regarding technological risk because the population is online with banking platforms and thousands connect for the first time every day, which makes cyber insecurity represent a risk that must be attacked and obliges to increase operational capacity as soon as possible to analyze alerts, paying special attention to monitoring the efficiency of the equipment and its capacity. The Government, in addition to health measures, has taken monetary and financial policy measures, with emphasis on liquidity to the financial system, in such a way that it forces operational risk management to be optimized. The operational risk can be increased by the number of processes carried out from home, when telecommuting is implemented.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Essentially, the model of management and control of operational risk in the Conglomerate establishes a valuation process that comprises the stages of identification, analysis, and assessment. In addition, it is done the control and mitigation, monitoring and information. Considering the above a set of qualitative and quantitative techniques and tools is 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. It also includes the assessment of effectiveness of existing management measures, as well as the implementation of risk management plans.

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, 62% are within the acceptability parameters, with a medium level exposure of 24.00% and a high level of 14%, establishing treatment plans in addition to the existing ones for the latter.

Regarding the calculation of regulatory capital, the Bank 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. Likewise, there are mitigation plans that will be activated in case of non-compliance with the tolerance limit.

Through the automated OpRisk tool, the operational risks detected in the risk assessments 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.

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

In line with the foregoing, as of the cut-off date there is a 59% decrease in gross operating losses compared to 2019 and a 41% 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:

Gross operating losses	
- Percentage distribution by type of risk-	
Type of operational risk	December 2020
Clients, products, and business practices	0.02%
Execution, delivery, and management of processes	34.02%
External fraud	56.53%
Internal fraud	0.01%
Business interruption and system failures	6.28%
Labor relations and safety in the workplace	3.13%
Total	100.00%

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 35%.

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. At the end of the first semester, the defined work plan has been 100% fulfilled.

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

This work is carried out in accordance with current internal regulations for Sigir, corresponding to the Corporate Risk Regulation, Corporate Risk Provisions and Procedures to manage IT risks in the BCR Financial Conglomerate. In addition, to strengthen technological risk management, a methodology is being developed to assess it.

Business Continuity

(j) Business Impact Analysis

Business continuity is internationally regulated in the ISO-22301 Business Continuity Management System, which defines the concept of business continuity as “the ability of the organization to continue the delivery of products or services at different levels, predefined after a disruptive incident”.

A disruptive incident is one that stops the operations of the organization regardless of its origin, so it is important to know which of the organization's products and services must be recovered first to minimize the negative impacts that the incident may generate. On the other hand, the Costa Rican regulation establishes in SUGEF Agreement 18-16, Regulation on Operational Risk management, in article 12, Business Continuity, that the Entity must implement and maintain a system that allows business continuity, with the purpose of providing effective responses, so that the operation of the Institution continues in a reasonable manner, in the case of events that may create an interruption or instability in its operations.

The Business Continuity Management System establishes in its first stage the development of the Business Impact Analysis (BIA), which provides information with which business activities are analyzed in an organization as well as financial, reputational, operational, legal, and regulatory impacts, among others that could generate interruptions or interferences.

In addition, the impact over time of an interruption on the organization's ability to operate is assessed, which allows identifying the maximum tolerable period of interruption (MTPD), which is the time in which a process can remain inactive without causing irreversible damage to the organization. Also, recovery priorities are determined and dependencies with other processes are identified as well as resources necessary to operate those activities.

The Business Continuity Unit is currently developing the new Business Impact Analysis, on which the Executive Corporate Committee of the BCR Financial Conglomerate approved the performance of the BIA on 66 processes out of a total of 278 that the Financial Conglomerate currently has.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The result of the BIA will be the processes and activities of the business prioritized according to the impacts of the estimated losses that could arise as a result of the occurrence of an incident or a disaster. Hence the importance of the Business Impact Analysis, since it is fundamental for the development of the following stages of the management system, such as the risk analysis to assess and determine the probabilities and impacts according to the risks that are identified, as well as the concentration of risks and the gaps to make the risks acceptable and establish business continuity strategies or mitigation plans to minimize the impacts of risks and the development of business continuity plans on the processes, products and services and priority activities of the organization. This stage is accompanied by the process of testing and training the personnel who carry out critical business activities to ensure the effectiveness of the plans and thus provide business continuity.

In terms of attention to the global crisis resulting from the Covid-19 Pandemic and with the restrictions implemented by the Ministry of Health, the scheme proposed as a contingency plan for critical services of the BCR Financial Conglomerate, became a daily work of most of the support areas. Given the sudden increase in demand, the allocation of licenses of virtual desktops VDI (*Virtual Desktop Infrastructure*) had to be prioritized in such a way that the resource were used adapting the access permissions to the systems, for which it was required to extract files to fit them in local tools of each terminal.

Thus, it was possible to integrate the use of VDIs with Office 365 tools (in the cloud). This effort managed to identify some opportunities for improvement in tools such as VDI, which before the end of the first quarter would become a critical resource to achieve remote work in various areas.

Thus, after 10 months of remote work, it is considered very satisfactory that an established, tested and exercised scheme as a contingency plan, was useful to face a pandemic that generated a state of crisis for much longer than foreseen.

Finally, in terms of managing the risk of money laundering, financing of terrorism and financing the proliferation of weapons of mass destruction, it continues to be a high priority at the institutional. The permanent reinforcement of the culture in the business areas regarding the mitigation of this risk is maintained.

This management integrates normatively defined evaluation factors such as clients, products, services, channels, and geographical areas. Permanent monitoring is provided through the Corporate Compliance Committee and the Management Body, to strengthen and promote actions that ensure the application of policies and procedures by all officials of the BCR Financial Conglomerate.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(40) Financial information of the Development Financing Fund

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

**DEVELOPMENT FINANCING FUND
STATEMENT OF FINANCIAL POSITION**

As of December 31, 2020

Financial Information

(In colones without cents)

	December 2020
Assets	
Cash and due from banks	¢ 1.246.277.231
Cash	1.246.277.231
Investment in financial instruments	3.258.275.841
At fair value with changes through profit or loss	2.506.287.491
At fair value with changes through other comprehensive income	750.000.000
Interest receivable	1.988.350
Loan portfolio	30.075.564.068
Current loans	29.303.490.006
Past due loans	915.738.825
Loans on legal collection	83.900.091
(Deferred income – loan portfolio)	(265.160.672)
Interest receivable	176.680.224
(Allowance for impairment)	(139.084.406)
Accounts and comissions receivable	2.871.750
Other accounts receivable	3.627.432
(Allowance for impairment)	(755.682)
Other Assets	4.358.015
Other Assets	4.358.015
Total assets	¢ <u>34.587.346.905</u>
Liabilities	
Accounts payable and provisions	¢ 22.720.587
Other miscellaneous accounts payable	22.720.587
Other liabilities	455.119
Other liabilities	455.119
Total liabilities	¢ <u>23.175.706</u>
Equity	
Contributions from Banco Central de Costa Rica	¢ 24.366.546.259
Accumulated results from previous periods	8.943.182.201
Result of the current period	1.254.442.739
Total equity	¢ <u>34.564.171.199</u>
Total liabilities and equity	¢ <u>34.587.346.905</u>
Own debit memoranda accounts	5.753.706.249

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

**DEVELOPMENT FINANCING FUND
STATEMENT OF INCOME**

For the periods ended December 31, 2020

Financial Information

(In colones without cents)

	December 2020
Financial income	
For investment in financial instruments	¢ 187
For loan portfolio	1.578.957.873
For profit on held-for-trading financial instruments	13.015.656
Other financial income	6.260.892
Total financial income	<u>1.598.234.608</u>
For allowance on loan portfolio	173.750.222
For recovery of assets and decrease in allowance	243.155.795
Financial income	<u>1.668.939.551</u>
Other operating income	
For other operating income	660.314
For currency exchange and arbitration	6
For commissions for services	28.489.264
Total other operating income	<u>29.149.584</u>
Other operating expenses	
For other operating expenses	443.646.396
Total administrative expenses	<u>443.646.396</u>
OPERATING INCOME, GROSS	<u>1.254.442.739</u>
Income of the period	¢ <u><u>1.254.442.739</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Loan Portfolio of the Development Financing Fund

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

a) Loan portfolio by sector

	December 2020
Sector	
Agriculture, livestock, hunting and related services	¢ 9.819.784.391
Fishing and aquaculture	11.172.166
Industria manufacturera	4.683.555.594
Trade	124.626.151
Services	13.905.247.401
Trasnportation	167.919.566
Financial activity and stock exchange	1.106.957.428
Construction, purchase and repair of real estate	193.800.359
Hotels and restaurants	224.491.195
Education	65.574.671
	<hr/> 30.303.128.922
Plus: interest receivable	176.680.224
Less: Deferred income – loan portfolio	(265.160.672)
Allowance for impairment	(139.084.406)
	<hr/> ¢ 30.075.564.068 <hr/>

b) Loan portfolio by arrears:

The loan portfolio by arrears is detailed as follows:

	December 2020
Up to date	¢ 29.303.490.006
1 to 30 days	753.633.934
31 to 60 days	102.520.739
61 to 90 days	9.835.341
91 to 120 days	47.748.810
More than 180 days	2.000.000
Legal collection	83.900.092
	<hr/> ¢ 30.303.128.922 <hr/>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

c) Past due loans

Past due loans, including loans in accrual status, for which interest are recognized on a cash basis, and unearned interest on past due loans, are as follows:

	December 2020
Number of operations	7
Past due loans in non-accrual status of interest	¢ 85.900.092
Past due loans for which interest is recognized	¢ 913.738.824
Total unearned interest	¢ 38.537.945

As of December 31, 2020, loans on legal collection are as follows:

# operations	Percentage	Balance
6	0.28%	¢ 83.900.091

d) Interest receivable on loan portfolio

Interest receivable is as follows:

	December 2020
Current loans	¢ 167.578.015
Past due loans	6.119.658
Loans on legal collection	2.982.551
	¢ 176.680.224

e) Allowance for bad loans

The movement in the allowance for bad loans is as follows:

Opening balance 2020	¢ 197.505.723
Plus:	
Allowance charged to profit or loss	173.117.759
Transfer of balances	52.104
Adjustments for exchange differences	22.040.303
Less:	
Transfer to outstanding balances	(10.681.080)
Reversal of allowance against income	(242.950.403)
Balance as of December 31, 2020	¢ 139.084.406

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

f) Loan portfolio by type of guarantee:

The loan portfolio by type of guarantee is as follows:

	December 2020
Guarantee	
Fiduciary	¢ 162.133.222
Mortgage	19.106.693.082
Chattel	686.037.251
Others	<u>10.348.265.367</u>
	¢ <u><u>30.303.128.922</u></u>

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

	Direct Loan Portfolio December 2020
Principal	¢ 30.303.128.922
Interest receivable	176.680.224
	<u>30.479.809.146</u>
Allowance for bad loans	<u>(139.084.406)</u>
Carrying amount	¢ <u><u>30.340.724.740</u></u>
Loan portfolio	
Total balances	
A1	¢ 1.113.040.692
C2	3.291.111
1	28.529.599.737
2	63.731.314
3	237.251.665
4	443.976.165
6	88.918.462
	<u>30.479.809.146</u>
Minimum allowance	<u>(95.859.116)</u>
Carrying amount, net	¢ <u><u>30.383.950.030</u></u>
Carrying amount	30.479.809.146
Allowance for bad loans	(95.859.116)
Allowance (surplus) deficit on minimum allowance	<u>(43.225.290)</u>
Carrying amount, net	6a ¢ <u><u>30.340.724.740</u></u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The loan portfolio assessed with an allowance is detailed as follows:

As of December 31, 2020

Aging of loan portfolio	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Direct generic allowance				
1	¢ 28.523.458.442	18.186.453.734	10.337.004.707	71.743.928
A1	1.119.181.987	477.529	1.118.704.459	5.595.910
	<u>29.642.640.429</u>	<u>18.186.931.263</u>	<u>11.455.709.166</u>	<u>77.339.838</u>
Direct specific allowance				
2	63.731.314	61.710.563	2.020.751	409.590
3	237.251.665	224.646.855	12.604.810	4.274.437
4	443.976.165	426.038.900	17.937.265	11.098.827
6	88.918.462	86.631.652	2.286.810	2.719.968
D	3.291.111	3.291.111	0	16.456
	<u>837.168.717</u>	<u>802.319.081</u>	<u>34.849.636</u>	<u>18.519.278</u>
	¢ <u>30.479.809.146</u>	<u>18.989.250.344</u>	<u>11.490.558.802</u>	<u>95.859.116</u>

Loan Portfolio

Aging of loan portfolio

	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Direct generic allowance				
Up to date	¢ 1.119.181.988	477.529	1.118.704.459	77.339.838
	<u>1.119.181.988</u>	<u>477.529</u>	<u>1.118.704.459</u>	<u>77.339.838</u>
Direct specific allowance				
Up to date	28.351.886.034	18.020.730.072	10.331.155.963	14.777.852
Equal or less than 30 days	749.786.317	713.537.808	36.248.509	75.561
Equal or less than 60 days	111.848.964	109.868.869	1.980.095	610.133
Equal or less than 90 days	9.847.080	9.664.113	182.966	94.062
Equal or less than 180 days	48.340.301	48.340.301	0	241.702
More than 180 days	88.918.462	86.631.652	2.286.810	2.719.968
	<u>29.360.627.158</u>	<u>18.988.772.815</u>	<u>10.371.854.343</u>	<u>18.519.278</u>
	¢ <u>30.479.809.146</u>	<u>18.989.250.344</u>	<u>11.490.558.802</u>	<u>95.859.116</u>

As of December 31, 2020

Risk category:

	Loans receivable from clients	
	Gross	Net
1	¢ 28.523.458.442	28.457.855.809
2	63.731.314	63.321.724
3	237.251.665	232.977.228
4	443.976.165	432.877.338
6	88.918.462	86.198.494
A1	1.119.181.987	1.107.444.782
C2	3.291.111	3.274.655
	¢ <u>30.479.809.146</u>	<u>30.383.950.030</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(41) Situation of the Development Credit Fund

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

**DEVELOPMENT CREDIT FUND
STATEMENT OF FINANCIAL POSITION**

As of December 31, 2020

(In colones without cents)

	December 2020
Assets	
Cash and due from banks	¢ 572.602.946
Banco Central de Costa Rica	572.602.946
Investments in financial instruments	148.054.359.961
At fair value through profit or loss	5.202.208.883
At fair value through other comprehensive income	141.088.054.191
At amortized cost	100.004.167
Interest receivable	1.664.092.720
Loan portfolio	22.741.655.708
Current loans	22.921.063.273
Past due loans	110.874.791
(Deferred income – loan portfolio)	(308.265.463)
Interest receivable	84.427.114
(Allowance for impairment)	(66.444.007)
Accounts and commissions receivable	198.395.367
Tax and deferred income tax	198.395.367
Other assets	394.071.324
Other assets	394.071.324
Total assets	¢ <u>171.961.085.306</u>
Liabilities	
Obligations with entities	¢ 168.090.921.427
Demand	168.090.921.427
Accounts payable and provisions	378.106.823
Deferred income tax	378.106.823
Other liabilities	697.720.716
Other liabilities	697.720.716
Total liabilities	¢ <u>169.166.748.966</u>
Equity	
Result of the previous period	¢ 844.374.416
Income of the current period	1.949.961.924
Total equity	¢ <u>2.794.336.340</u>
Total liabilities and equity	¢ <u>171.961.085.306</u>
Other debit memoranda accounts	
Other debit memoranda accounts	¢ 16.243.717.176
Own debit memoranda accounts	6.083.172

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

**DEVELOPMENT CREDIT FUND
STATEMENT OF INCOME**

For the period ended December 31, 2020

Financial Information

(In colones without cents)

	December 2020
Financial income	
For investments in financial instruments	¢ 6.778.153.143
For loan portfolio	1.004.806.997
For exchange rate differences	1.747.390.177
Other financial income	372.127.741
Total financial income	<u>9.902.478.058</u>
Financial expenses	
For obligations with the public	1.510.104.246
Other financial expenses	15.192.302
Total financial expenses	<u>1.525.296.548</u>
Recovery of assets and decrease in allowance	(858.011.198)
For recovery of assets and decrease in allowance	1.078.462.019
Financial income	<u>8.156.730.689</u>
Other operating income	
For service commissions and fees	10.061
For exchange and arbitration. foreign currency	274.448.061
For other operating expenses	201.184.518
Total other operating income	<u>475.642.640</u>
Other operating expenses	
For exchange and arbitration. foreign currency	87.879.569
For other operating expenses	270.473.869
Total other operating expenses	<u>358.353.438</u>
Gross operating	<u>8.274.019.891</u>
Profit transferred to the National Development Trust	6.324.057.967
Income of the period	¢ <u>1.949.961.924</u>
Total comprehensive income of the period	¢ <u>1.949.961.924</u>
Profit sharing	
Profit transfer to the National Development Trust	¢ 6.324.057.967
Commission for management of the National Development Trust	1.949.961.924
	¢ <u>8.274.019.891</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

	December 2020
At fair value through profit or loss	¢ 5.202.208.883
At fair value through other comprehensive income	141.088.054.191
At amortized cost	100.004.167
Interest receivable for investments at fair value through other comprehensive income	<u>1.664.092.720</u>
	¢ <u><u>148.054.359.961</u></u>
	December 2020
At fair value through profit or loss	Fair value
Local issuers	
State-owned Banks	¢ 5.202.208.883
	¢ <u><u>5.202.208.883</u></u>
	December 2020
At fair value through other comprehensive income	Fair value
Local issuers	
State-owned Banks	¢ 141.088.054.191
	¢ <u><u>141.088.054.191</u></u>

As of 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Loan Portfolio of the Development Credit Fund

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

a) Loan portfolio by sector

	December 2020
Sector	
Agriculture, livestock. Hunting and related services	¢ 9.538.035.262
Manufacturing	11.398.279.034
Trade	6.000.000
Services	2.089.623.768
	<u>23.031.938.064</u>
Plus: Interest receivable	84.427.114
Less: Deferred income-loan portfolio	(308.265.463)
Allowance for impairment	(66.444.007)
	<u>¢ 22.741.655.708</u>

b) Loan portfolio by arrears:

The loan portfolio by arrears is detailed as follows:

	December 2020
Up to date	¢ 22.921.063.273
61 to 90 days	110.874.791
	<u>¢ 23.031.938.064</u>

c) Delinquent and past due loan portfolio

Delinquent and past due loans, including loans with recognition of interest based on cash and interest not received on these loans, are summarized below:

	December 2020
Delinquent and past due loans with interest recognition	¢ 110.874.791
Total of not received interest	¢ 6.083.172

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

d) Loan portfolio by type of guarantee:

The loan portfolio by type of guarantee is as follows:

	December 2020
Current loans	¢ 83.557.337
Past due loans	869.777
	<u>¢ 84.427.114</u>
e) <u>Allowance for impairment of loan portfolio</u>	
Balance at the beginning of 2020	¢ 70.058.329
Plus:	
Allowance to profit or loss	23.137.384
Adjustment for exchange differences	2.598.947
Less:	
Adjustment for exchange differences	(488.607)
Reversion of allowance against income	<u>(28.862.046)</u>
Balance as of December 31, 2020	<u>¢ 66.444.007</u>
f) <u>Loan potfolio by kind of guarantee:</u>	
	December 2020
Guarantee	
Mortgage	¢ 489.542.633
Chattel	846.792.078
Other	<u>21.695.603.353</u>
	<u>¢ 23.031.938.064</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

g) DCF financial instruments with exposure to credit risk are detailed as follows:

	Direct Loan Portfolio December 2020
Principal	¢ 23.031.938.064
Interest receivable	84.427.114
	<u>23.116.365.178</u>
Allowance for bad loans	(66.444.007)
Carrying amount	¢ <u>23.049.921.171</u>
Loan portfolio	
Total balances	
1	¢ 22.724.893.182
3	111.744.568
4	279.727.428
	<u>23.116.365.178</u>
Minimum allowance	(61.860.080)
Carrying amount, net	¢ <u>23.054.505.098</u>
Carrying amount	23.116.365.178
Allowance for bad loans	(61.860.080)
Allowance (surplus) deficit on minimum allowance	(4.583.927)
Carrying amount, net	6a ¢ <u>23.049.921.171</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The assessed loan portfolio including allowance is detailed as follows:

As of December 31, 2020

Loan portfolio	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Direct generic allowance				
1	¢ 22.724.893.182	5.874.960.777	16.849.932.405	59.902.720
	<u>22.724.893.182</u>	<u>5.874.960.777</u>	<u>16.849.932.405</u>	<u>59.902.720</u>
Direct generic allowance				
3	111.744.568	111.744.568	0	558.723
4	279.727.428	279.727.428	0	1.398.637
	<u>391.471.996</u>	<u>391.471.996</u>	<u>0</u>	<u>1.957.360</u>
	¢ <u>23.116.365.178</u>	<u>6.266.432.773</u>	<u>16.849.932.405</u>	<u>61.860.080</u>

Loan portfolio

Aging of loan portfolio

Direct generic allowance	Direct Loan Portfolio			
	Principal	Covered balance	Overdraft	Allowance
Up to date	¢ 23.004.620.610	6.154.688.205	16.849.932.405	59.902.720
	<u>23.004.620.610</u>	<u>6.154.688.205</u>	<u>16.849.932.405</u>	<u>59.902.720</u>
Direct generic allowance				
Equal to or less than 90 days	111.744.568	111.744.568	0	1.957.360
	<u>111.744.568</u>	<u>111.744.568</u>	<u>0</u>	<u>1.957.360</u>
	¢ <u>23.116.365.178</u>	<u>6.266.432.773</u>	<u>16.849.932.405</u>	<u>61.860.080</u>

Loans receivable from clients

As of December 31, 2020

Risk category:

	<u>Gross</u>	<u>Net</u>
1	¢ 22.724.893.182	22.664.990.462
3	111.744.568	111.185.845
4	279.727.428	278.328.791
	¢ <u>23.116.365.178</u>	<u>23.054.505.098</u>

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

By request for change made by private banks to operate in accordance with the provisions of subsection ii) of Law N.1644, Organic Law of the National Banking System, the Governing Council of the Development Banking System authorizes the managing banks to transfer the resources from the Development Credit Fund, the repayment of which will be in monthly installments for a maximum period of six months.

	December 2020
Banco Promerica	¢ 10.198.963.905
	¢ 10.198.963.905

(42) Merger of Banco Crédito Agrícola de Cartago

On September 10, 2018, the bill "Merger by absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica" was approved by the Legislative Assembly. The Law approved by the Congress establishes that the operative merger between Bancrédito and BCR will be effective within a maximum period of 60 working days, after the Law comes into effect.

The Law "Merger by absorption of Banco Crédito Agrícola de Cartago and Banco de Costa Rica", Legislative Decree N° 9605, File N° 20-366, became effective as of September 19, 2018, after it was published in the official paper La Gaceta. As result of this merger, Banco Crédito Agrícola will be ceased as a legal entity and its net assets will be transferred to Banco de Costa Rica, which will be a full party as of the effective date of this Law.

From September 19, 2018, the subsidiaries that belonged to Bancrédito became part of the BCR Financial Conglomerate, which are: Bancrédito Agencia de Seguros, S.A. and Depósito Agrícola de Cartago, S.A. and its subsidiary (DACSA).

According to Law 9605, Article 1, Absorption of Banco Crédito Agrícola de Cartago by Banco de Costa Rica, it indicates that the shares of Bancrédito's subsidiaries will be understood as fully transferred to Banco de Costa Rica, which will assess to keep them in operation, sale or settlement, within the maximum and non-extendable period of eighteen calendar months after the entry into force of this law, within which period it will be authorized to act as the sole shareholder of such companies.

The accounting record of the transfer of the subsidiaries generated an account payable that will be settled at the time of the merger.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The values of the acquired assets and liabilities are presented as follows:

Assets

Availabilities	¢	10.669.426.874
Investment securities and deposits		33.048.470.128
Loan portfolio		62.384.435.583
Accounts and interest receivable, net		821.272.917
Foreclosed assets		9.550.034.824
Interest in the capital of other companies		1.775.426.523
Property, furniture and equipment, net		12.458.596.560
Other assets		2.045.233.742
	¢	<u>132.752.897.151</u>

Liabilities

Obligations with the public	¢	137.201.252.314
Accounts payable and provisions		5.846.633.059
Other liabilities		850.089.084
	¢	<u>143.897.974.457</u>

Net assets or equity

Less:		
Cash of the acquired Company		10.669.426.874
Cash being reimbursed on absorption	¢	<u>(21.814.504.180)</u>

Net assets or equity		11.145.077.306
Capital contribution in compliance with Law 9605		18.907.432.694
Cash being reimbursed on absorption	¢	<u>30.052.510.000</u>

The resources received in own debit Memoranda accounts are in the amount of ¢126.647.404.664.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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

Following are some of the main differences between the accounting standards issued by the Board and IFRSs, as well as the IFRSs or interpretations of the International Financial Reporting Interpretations Committee (IFRICs) yet to be adopted:

a) IAS 1: Presentation of Financial Statements

The new IAS 1 became effective as of 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 in periods beginning on or after July 1, 2012. The changes that have been included in IAS 1 are to specific paragraphs related to the presentation of other comprehensive income. These changes will require other comprehensive income to be presented separating those that cannot be reclassified subsequently to the income statement and those that may be subsequently reclassified 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 1 changes the name of some financial statements, using “statement of financial position” instead of balance sheet.

IAS 1 requires 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.

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

Accounting estimates are the best approximations of values or items that are included in the financial statements to measure the effects of events or economic transactions that have already occurred, or a current situation that is typical of an asset or liability of the entity, including adjustments that occur after the evaluation of an item as a result of new information or new events.

Any change in accounting estimates is prospective and is recorded in income for the period.

Based on its business model, nature, size, complexity, risk profile and other circumstances inherent to its operational activity, the entity must implement policies and procedures to define the representative framework to determine whether the information is material or not, which involves considerations of quantitative and qualitative factors. The entity shall disclose material inaccuracies or omissions, and related accounting policies, in the financial statements.

e) IAS 12: Income tax

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

IAS 12 allows assets and liabilities to be presented net when they belong to the same tax entity, income or expense is presented net, as part of total income tax.

In the presentation of the SUGEF chart of accounts, each deferred income tax account must be presented separately.

In the case of a dispute regarding a specific tax treatment by the Tax Authority, which begins with the notification of a transfer of charges, the entity must:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- a. Record against results of the period in the event that, according to the assessment by senior management, it is concluded that the entity has an immediate enforceable obligation with the Tax Administration.
 - b. Record a provision, for those treatments not considered in the previous paragraph, and whose amount must reflect the uncertainty for each of the tax treatments in dispute, according to the method that best predicts its resolution, as indicated by IFRIC 23.
- 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.

The revaluation must be supported by an appraisal made by an independent professional, authorized by the respective college.

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 held-for-sale.

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

The supervised entities must keep their records and present their financial statements in Costa Rican colones.

The supervised entities must use the reference sale exchange rate of the Central Bank of Costa Rica that prevails at the time the operation is carried out for the accounting record of the conversion of foreign currency to the official currency 'colón', except for pension funds and labor capitalization funds, which must use the reference purchase exchange rate of the Central Bank of Costa Rica. Pension funds created by special or basic law managed by non-banking public sector institutions may use the purchase exchange rate referred to in article 89 of the Organic Law of the Central Bank of Costa Rica.

At the end of each month, the corresponding reference exchange rate will be used as indicated in the previous paragraph, in force on the last day of each month for the recognition of the adjustments for exchange rate differences in monetary items in foreign currency.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The provisions of this article do not prevent entities from generating information on a currency other than the Costa Rican colón, in the terms described in IAS 21 on functional currency. However, this information may not be used for the purposes of calculating prudential indicators, for presentation to the respective Superintendence or for publication to the public as required in the legal provisions that regulate the Financial System.

h) 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

i) IAS 28: Investments in Associates and Joint Ventures

In application of IAS 28 *Investments in associates and joint ventures*, the entity with legal power to participate in the equity of other companies or special purpose entity, such as joint Ventures, associated, Trusts, must use the equity method, from the date it acquires the investment or from the date it becomes an associate, joint ventures, or special purpose entity.

Supervised entities must present their separate financial statements.

j) Amendments to IAS 32: Financial Instruments 0 Presentation and IAS 1: Presentation of Financial Statements 0 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.

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

SUGEF requires that a provision for possible losses must be booked for contingent assets. IAS 37 does not allow this type of provision.

l) 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. Similar procedure and term must be used for the amortization of goodwill acquired.

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 CONASIF standards.

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

After initial recognition, intangible assets with a defined useful life must be accounted for at their acquisition cost less accumulated amortization and accumulated impairment losses that may have affected them.

The supervised entity's senior management must establish the appropriate mechanisms and procedures to determine whether an intangible asset with an indefinite useful life has deteriorated. For the respective verification, it will compare its recoverable amount with its carrying amount. This comparison must be carried out when there is any indication that the value of the asset could have deteriorated or, at least, on an annual basis.

This provision also applies to goodwill acquired in a business combination.

The automated applications in use must be systematically amortized by the straight-line method, in the course of the period in which it is expected to produce economic benefits for the entity, which must be based on its accounting policy.

In the case of commercial banks, indicated in article 1 of the Organic Law of the National Banking System, Law 1644, organization and installation expenses can be presented in the statement of financial position as an asset, but must be fully amortized by the straight-line method within a maximum period of five years.

m) IAS 40: Investment Property

Investment properties must be valued at fair value.

For leased investment properties in which the fair value cannot be reliably measured on a continuous basis, its value will be measured by applying the cost model indicated in IAS 16 Property, Plant and Equipment. The residual value of the investment property should be assumed to be zero.

n) IFRS 3: Business combinations (revised)

In the application of IFRS 3, non-controlling interests in the acquiree, which are interests in current ownership and which grant the right to a proportional participation in the net assets of the entity, in the event of settlement must be measured, by the acquirer, at fair value on the acquisition date.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The combination that involves entities or businesses under common control or that the acquiree is a subsidiary of an investment entity, must be carried out by integrating its assets and liabilities measured at carrying using even accounting policies, for which adjustments in the financial statements of the acquiree will be previously carried out, to ensure that the accounting policies correspond to those used by the acquirer.

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

In the case of entities supervised by SUGEF, assets awarded in judicial auctions or received in payment of obligations must be valued at the lower of:

- a) its carrying amount; and
- b) its fair value less selling costs.

The entity must implement a sales plan and a program to negotiate the assets at a reasonable price that allows the plan to be completed in the shortest possible time.

Within a 24-months period from the date of award or receipt of the asset, the entity must request the Superintendent, by the means provided by the latter, an extension for an equal period for the sale of the asset. By means of duly reasoned criteria, the Superintendent may deny the request for an extension, in which case he will demand the constitution of an allowance of the property for 100% of its carrying amount.

Also, an allowance for 100% of the carrying amount of the asset will be required when at the end of the indicated term, the entity did not request the extension. However, it will be a necessary condition that within 24 months from the date of award or receipt of the asset, it is estimated to be at least 50% of its carrying amount.

To determine the carrying amount of the assets awarded in judicial auctions or received in payment of obligations, the entity must record an allowance at the rate of one-forty-eighth per month until completing one hundred percent of the carrying amount of the asset. This accounting record will begin from the closing date of the month in which the asset was awarded or received in payment.

p) IFRS 9: Financial Instruments

The conventional purchase or sale of financial assets must be recorded applying the accounting of the settlement date.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Financial assets are divided into those that are measured at amortized cost and those that are measured at fair value. Based on the business model for managing financial assets and the characteristics of the contractual cash flows of the financial asset, the entity should classify its own investments or pooled portfolios in financial assets according to the following valuation categories:

- a. At amortized cost. If an entity, in accordance with its business model and the 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; and
 - ii. the gain or loss that should have been recognized in profit or loss for the financial statements indicated in the previous section.
- b. At fair value through other comprehensive income.
- c. At fair value through profit or loss: Participations in open investment funds must be registered in this category.

Regulated entities must have policies and procedures to determine when to suspend the accrual of commissions and interest on loan operations.

However, the period of suspension of accrual should not be more than one hundred and eighty days.

q) IFRS 13: Fair Value Measurement

Valuation at fair value of the portfolios of financial assets and financial liabilities exposed to market risk and credit risk will be done individually. Measurement based on the net risk exposure of the entity is not admissible.

Expenses or losses from equity reserves created by law or voluntarily by regulated entities cannot be directly recorded, without having previously gone through profit or loss of the period.

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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(44) Figures for 2019

As of December 31, 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: "Regulation on the financial information" approved by CONASSIF.

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.

(45) Relevant and subsequent events

As of December 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 latest regulation proposal notified to the Bank by the Tax Authorities, regarding the items representing a tax contingency from a legal risk point of view that would mean an eventual confirmation of the payment obligation or future dismissal, and in order to make the corresponding provision considering the legal risk involved, it is indicated that the total amount for tax adjustments, interests and penalties as of January 8, 2015 is 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The Bank expressed partial disagreement with the proposed regulations 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. 9535.

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.

The amounts of the payment are presented as follows:

Period		Income tax	Pennalties	Total
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>12.931.868.340</u>	<u>1.206.245.077 ¢</u>	<u>14.138.113.417</u>

As of July 3, 2020, the BCCR publishes Law 9859 "Law to fight Usury" defining a maximum on interest rates on loans and credit cards equivalent to 37.69% per year in colones and 30.36% in US dollars, in force for the second quarter of 2020. BCR credit cards offer an interest rate of 32% per year, one of the lowest in the market at the time of the entry into force of Law 9859, therefore it did not generate a financial impact on the income for credit card interest.

On the other hand, the law establishes a minimum non-seizable wage amount that cannot be considered in the analysis of the ability to pay, which implied the incorporation of this concept into the current credit regulations.

As of December 31, 2020, an adjustment for ¢1.734.981.794,69 for provision reversal for IFRIC 23 is carried out by prescription corresponding to the period 2015.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

As of December 31, 2020, BCR Operadora de Pensiones Complementarias carried out an adjustment for ¢51.013.093 for provision reversal for IFRIC 23 by prescription corresponding to the 2015 period.

As of December 31, 2020 BCR Corredora de Seguros carried out the reversal of the respective contingency for ¢40.880.144 corresponding to the 2015 period.

As of December 31, 2020 BCR Valores S.A. carried out the reversal of the respective contingency for ¢194.676.459 corresponding to the 2015 period.

As of December 31, 2020 BCR Sociedad Administradora de Fondos de Inversión S.A. carried out the reversal to the respective contingency for ¢42.457.128 corresponding to the 2015 period.

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 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,

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 to 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 meoranda 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 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.

The National Registry is authorized to, within the term provided in article 1 of this law, proceed 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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:

- 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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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,

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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.

Decrease in the percentage of commissions in the Régimen Obligatorio de Pensiones Complementarias (ROPC)

Article 37, paragraph 2, of the Opening and Operating Regulations establishes that the calculation basis of the commission for management of the Régimen Obligatorio de Pensiones Complementarias (ROPC) will be a percentage of the administered balance, the latter defined as the difference between the total assets and liabilities. The maximum limit of commission that entities may charge to affiliates of the ROPC will be of 0.35% per year.

In transitory I of the Regulation of Opening and Operation, it is established that the calculation basis for the commission for the ROPC will be effective as of January 1, 2011. In the same transitory, it establishes a graduality table that adjusts the commissions' percentage every three years.

During 2014, 2015 and 2016, the commission charged to the ROPC affiliates was of 0.70%. As of January 1, 2017 and until December 31, 2019 the administration fee for the ROPC decreases from 0.70% to 0.50% in accordance with transitory I of the Opening and Operating Regulations.

During the periods 2017, 2018 and 2019 the commission charged to ROPC affiliates was of 0.50%. As of January 1, 2020, the administration fee for the ROPC decreases from 0.50% to 0.35% in accordance with transitory I of the Opening and Operating Regulations.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Value added tax

With the enactment of Law No. 9635, Law on Strengthening Public Finances of December 3, 2018, the sales tax system is comprehensively reformed, derogating entirely the General Sales Tax Law, Law No. 6826 of November 8, 1982 and its reforms, migrating its Title I to a new regulatory framework, called the Value Added Tax Law. This tax is regulated in Article 1 of the aforementioned Law. In this new regulatory framework, all goods and services are taxed as a general rule, presupposing an improvement in the control and oversight of the tax, since the list of exempt goods and services is considerably reduced, according to what is established in Article 8 of the Law. Likewise, the essential elements of the tax, being the taxable event, the accrual, the taxable persons, and the taxable base, were modified with Article 1 of the Law for Strengthening Public Finances.

New administration of the Notarial Guarantee Fund

On October 8, 2019, BCR Pensiones started managing the Notarial Guarantee Fund; this fund was created with the enactment of the Notarial Code started ruling in 1998.

The National Directorate of Notaries carried out a comprehensive market study to determine the existence of options to manage its fund, thus transferring the Fund to BCR Pensiones.

As of December 31, 2019, the Notarial Guarantee Fund generated an income of ₡171,744,963.

In official letter BCROPC-048-20 dated February 11, 2020, the deadline for delivery of the audited financial statements of the Individual Capitalization Fund of Notarial Guarantee is extended once the National Directorate of Notaries delivers the corresponding audited financial statements to the period from January 1 to October 7, 2020, which was administered by another Complementary Pension Operator.

Declaration of health alert for COVID-19

Actions of the Government of Costa Rica

On March 8, 2020, given the increase in confirmed cases, the Ministry of Health and the National Commission for Risk Prevention and Emergency Attention decided to decree the yellow alert throughout the country, in view of the health emergency caused by the presence of COVID-19.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

On March 11, 2020, the World Health Organization elevated the public health emergency caused by COVID-19 to an international pandemic. The rapidity in the evolution of the events, on a national and international scale, requires the adoption of immediate and effective measures to face this situation. The extraordinary circumstances that occur constitute, without a doubt, an unprecedented and enormous health crisis, both due to the very high number of people affected and the extraordinary risk to their lives and rights.

The Board of Directors of the National Commission for Risk Prevention and Emergency Attention, in the extraordinary session of March 15, 2020 through agreement number 046-03-2020, recommended to the President of the Republic to declare a state of national emergency, according to Article 18 of the National Law on Emergencies and Risk Prevention and following the terms of the Law.

As of March 17, 2020, the decree of Fiscal Relief for COVID-19 is approved, establishing moratorium measures in the payment of income tax (VAT, selective consumption and duties, from April to June 2020 they be declared and may be paid free of charge for interest or penalties until December 2020, a postponement of the payment term is granted, there is no forgiveness or amnesty).

In addition, it will not be necessary to pay the rent advance for the months of April to June 2020 and the VAT exemption on commercial rentals in the months of April to June 2020.

On March 18, 2020, directive 075-H was signed to instruct the State commercial banks, in exercise of their constitutional autonomy, to carry out all the necessary and effective measures to readjust the credits of the debtors affected by the current situation.

The guideline urges banks to assess measures such as the following:

1. Decrease in interest rates according to the terms of each loan.
2. Extension of the term of loans.
3. Extension in the payment of the principal and/or interest for the time that is necessary.
4. Extraordinary payments to the principal amount without penalty.

Financial Information Regulation

As of March 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:

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

CONASSIFF approved

- a. To 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 September 30, 2021, without qualifying as a special operation.
- 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 particular measure aims to facilitate the readjustments and / or refinancing of the credits. This measure is temporary; it is in force 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 provision will be in force until March 31, 2021.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

- h. Measures related credit policies and procedures: A measure that will ease the procedures for both the granting of new credits and their readjustments and/or refinancing, where financial institutions may omit, in their credit policies and procedures, the information that they ordinarily request from their clients to verify their ability to pay. This provision will be in force until March 31, 2021. Measures regarding the Suspension of Classification of Irregularities of the Sanitation Plan: It was agreed to suspend, for one year, the provision that classifies a financial entity in "type irregularity", when the institution has 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 reorganization plan to counteract the situation. It is important to note that SUGEF must amend the parameters for determining the liquidity indicators. This measure will be in force for a twelve-month 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.

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 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. This measure will allow financial entities to allocate resources to grant credits, which would ordinarily be foreseen for the reserves required by law.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

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 with one-day and up to thirty-days terms.
- 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 an 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.

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Measures adopted by the Bank in the face of the health emergency due to COVID-19. Measures were generated in three areas:

- 1) Direct loan: A total grace period of 6 or 12 months will be provided, in which the client will pay only what corresponds to credit-related policies, that is, the principal and interest will not be charged during that period; the collection will be carried out after the total grace period and will be treated according to the needs of each client.

The unpaid interest will be charged through a new loan that will take effect at the end of the grace period.

For this new operation, the interest rate will be, in colones basic passive rate (TBP) + 1 colones and in US dollars PRIME rate, depending on the currency, and for the remaining term of the main operation.

In the cases necessary, the maturity of the main operation may be extended by up to 11 months.

This facility applies to customers with less than 60 days past due, for which no additional payment capacity analysis will be made.

- 2) Credit cards: With reference to credit cards, at the request of each client, a total grace period will be granted for a period of up to three months. During the months of the full grace period, you will be no charges for fees or default interest.
- 3) Credit lines: They will be attended to as specific situations, punctually analyzing each client to identify the need and provide a tailor-made solution.

As an immediate response to the corporate sector, the Bank will allocate close to 100 billion colones to support the liquidity of its corporate clients, readjusting its credit operations in direct loans, to improve the cash flows of the companies.

In this first stage, facilities will be given with emphasis on Tourism and Commerce, which will allow a medium-term solution, ranging between 6 or 12 months in both currencies.

In a second stage, the Transportation and Commercial sector with real estate activity will be addressed with greater emphasis, also covering other economic activities.

As of December 31, 21,809 credit operations related to COVID-19 have been readjusted and the portfolio allowance was increased (see note 1.j).

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

Effects of the pandemic on BICSA

As of December 31, 2020, the number of moratoriums granted by BICSA Group reaches an amount of 184.7 million dollars, which represents 12% of the total portfolio and provisions were made to cover the potential effect of macroeconomic impairment of the loan portfolio according to the entity's expected loss models (see note 26 - Modified special mention category loans).

Faced with the pandemic, Grupo BICSA was forced to respond quickly to critical questions in the operational and financial areas. In particular, the recalibration and updating of IFRS 9 models is of particular importance as a fundamental task in the current context because of various factors that in turn have an impact on provisions. These reviews considered adjustments to conventional methodological aspects such as the probability of default (PD), the loss given default (LGD) and the forward-looking adjustment (prospective economic effect of the IFRS 9 model). The classification criteria in Stages have also been revised to incorporate the effects that the COVID-19 environment could bring to customers, in this case it is necessary to define criteria for a significant increase in credit risk (ISRC) based on the risk of the economic sector, the activity within the economic sector and the particular characteristics of each client. Finally, based on the methodology defined taking as reference the international regulations and the local regulatory context, the Bank defined the Post Model Adjustments (Overlays) with general guidelines for the classification process of modified loans in the different stages established by IFRS 9. After applying the adjustments, the bank resulted in an increase in its IFRS 9 reserve estimate of \$1.3 million.

Management and impacts of the pandemic for COVID-19 at BICSA

As of the second quarter of 2020, the Group increased its volume of current assets to an average greater than 63.65% of the Legal Liquidity indicator, doubling the minimum 30% required (see Note 5 - Liquidity Risk). Finally, the Group's solvency level has improved compared to the previous closing ended on December 31, 2019 and remains well above the requirements of the SBP in 12.76% of weighted equity/assets based on risk (see Note 5 - Capital Management). The final magnitude of the impact of the pandemic for COVID-19 on the Group's business, financial situation and results will depend on future and uncertain events, including the intensity and persistence over time of the consequences derived from the pandemic in the different geographies in which the Group operates.

Financial Information Regulation

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

BANCO DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

The purpose of the Regulations is to moderate the application of the 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 propose two or more application alternatives.

Effects of the Financial Information Regulation

Upon entry into force of the Financial Reporting Regulations, the Bank reclassifies and adjusts the following balances:

	December 2020
Reclassification due to change in investment categories	¢ 225.806.217.067
Adjustment for recognition of assets for the right-of-use	40.613.257.785
Adjustment for impairment of investments at fair value through other comprehensive income	1.953.390.353
	¢ 268.372.865.205

Distribution of dividends

As of June 30, 2020, BCR Corredora de Seguros S.A., distributes dividends in the amount of ¢3.000.000.000, according to the resolution of the Extraordinary General Shareholders' Meeting No. 20-2020, on 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., distributes dividends in the amount of ¢1.158.000.000, according to the resolution of the Extraordinary General Shareholders' Meeting, Session No. 20-2020 of June 2, 2020.

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 DE COSTA RICA AND SUBSIDIARIES

Notes to the consolidated financial statements

December 31, 2020

(46) Authorization date for issuance of the financial statements

The General Management of the Bank authorized the issuance of the consolidated Financial Statements on January 27, 2021.

SUGEF might require amendments to the Financial Statements after the date of authorization for issuance.