

GREEN BONDS REPORT

BANCO NACIONAL DE COSTA RICA

March 2021

I. Introduction

Banco Nacional de Costa Rica (BNCR) issued a US\$500m Green Bond on April 20, 2016, the first Green Bond in Central America. With this transaction, BNCR consolidates its focus on sustainability, with the ultimate goal of supporting Costa Rica’s development. Currently, BNCR owes \$310.2 outstanding from the original issue.

The efforts and actions taken by BNCR to promote sustainability across its business lines have been recognized both domestically and internationally, with the granting of the “2017 Green Bond Pioneer Award” by the Climate Bonds Initiative.

As stated in the offering memorandum, the net proceeds from the issuance (see section “Management of Proceeds” below) have been used to finance, in whole or in part, “Eligible Green Projects”, meaning projects that foster renewable energy –such as, wind farms, solar projects or hydroelectric projects with 50MW or less installed capacity- or wasting water treatment projects.

II. BNCR Sustainability Strategy

BNCR is renowned as Costa Rica’s premier development bank and promoter of sustainable development. Since inception, the Bank has based its activities on the principles of solidarity and support of entrepreneurship and of micro, small, and medium enterprises.

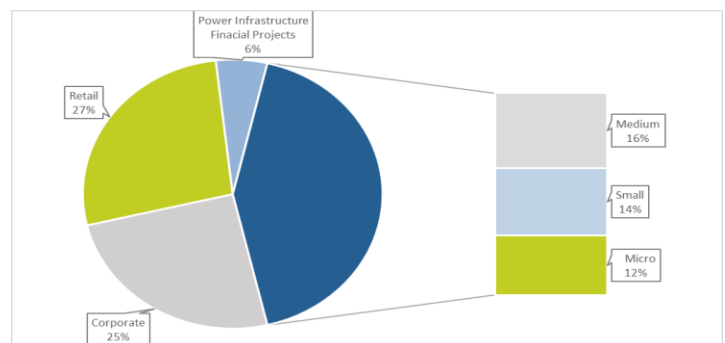
Several initiatives carried out by the Institution over the last decades confirm those efforts:

- It established its Development Banking division in 1999.
- The bank offers special facilities for small and medium businesses (SMBs). This includes small farmers (BN Agro); exporting firms (BN PYMEX); women-owned businesses (BN Banca Mujer), and environmental investment projects (BN PYME Verde); second-floor financing.
- It is a leading player in power infrastructure financing.
- The bank provides training, technical assistance, local, and international trade promotion.

- It is the leading bank in financing for infrastructure, housing, and small and medium enterprises.
- The bank offers assistance in client businesses’ efforts towards diversification, innovation, and international expansion.
- The bank is at the forefront of national efforts to fund measures towards carbon neutrality.
- The bank manages the Sustainable Biodiversity Trust (FBS), a US\$17 m fund created by the Government of Costa Rica’s Forest Financing Fund (FONAFIFO) in partnership with local and foreign entities. The FBS plans to amass US\$100m by 2021.

BNCR’s loan portfolio amounted 4,241,025m colones (approximately US\$6,870b) as of December 31, 2020. Chart 1 shows a breakdown by segment, with Power and Infrastructure representing 6% and Development 44%.

Chart 1: Total Loan Portfolio, Dec 31, 2020



III. Corporate Social Responsibility

BNCR’s CSR permeates all its activities and follows key principles set in the Costa Rican INTE 35:01:01 standard, based on the ISO 26000 international standard. As part of these efforts, BNCR adopted a Corporate Governance Code in 2014, which upgraded internal committees to oversee CSR actions throughout the organization.

Currently, 100% of BNCR's branches are engaged in the volunteering and compliance environmental programs developed by BNCR.

On the environmental side, BNCR has a medium-term strategy for achieving ISO 14001 standards by 2021. This strategy is captured in an Environmental Management Program focused on several components.

First, a firm-wide recycling program, which produced 137,776 kilograms of classified materials for reutilization in 2020.

Second, fuel usage was reduced by 58.94% when compared with consumption on the previous year.

Third, INTECO certified the 100% of BN facilities as Carbon Neutral.

Fourth, greenhouse gases were reduced by almost 3 additional tons when compared to previous year.

Finally, awareness efforts made by the Bank about the consumption of water and electricity produced a reduction in the consumption of both, being 9.26% and 3.31% respectively.

Currently, the Banco Nacional Conglomerate has environmental committees in each of its facilities. This allows greater control and monitoring of environmental goals. So far, more than 5,000 people have participated in 25 related and webinars.

Regarding purchases, all single-use plastics such as plastic removers, tableware or plastic cups have been prohibited, both for customers and for internal office use.

During 2020, the CO2 emissions were reduced in 200 tons. Together with other initiatives, this has saved BNCR a total of 700m colones.

Third, BNCR is working on implementing a firm-wide Institutional Environmental Management Program (PGAI) in order to measure and improve the use of institutional resources (paper, fuel) and public utilities (electricity, water).

BNCR also takes the environmental practices to its business, with products such as "BN PYME Verde" to finance projects that satisfy certain requirements of sustainability and eco-friendliness, "Servibanca Ecológica Card" and "Marchamo Ecológico" which allows customers to direct donations to the FBS and "BN Vivienda Eco Amigable", a credit facility to fund

eco-friendly housing. BNCR is now transferring 10% of the commissions earned through green debit and credit cards to FONAFIFO in order to protect private forest reserves. We also offer special conditions for electric vehicle credits, which are eco-friendly with the environment.

IV. Green Project Eligibility Criteria

"Eligible Green Projects" include (i) existing projects with disbursements made during the 24 months preceding the issue date of the Notes, (ii) existing projects with disbursements made following the issue date of the Notes and (iii) projects with commitments to be made following the issue date of the Notes up to the Maturity Date.

Loans extended to Eligible Green Projects go through an evaluation process that follows Costa Rican regulations for environmental protection and materially complies with Secretaría Técnica Nacional Ambiental (SETENA) regulations. Prior to any disbursement by BNCR, SETENA must grant the project a construction permit. BNCR's credit unit collaborates with a third-party consultancy to prepare documentation and present it to SETENA.

SETENA then prepares an Environmental Impact Analysis covering potential consequences of the project in local biodiversity, history, and community. In this stage, projects are subject to further scrutiny of Costa Rican 4482506 law. If potential issues are identified, SETENA will require a plan of mitigating measures.

Finally, upon SETENA's approval of the project and mitigation measures, BNCR disburses the loan.

V. Management of Proceeds

According to Costa Rican regulation, banks must keep the equivalent of 15% of financial liabilities in foreign currency (including long-term debt) as liquidity reserves at the Central Bank, and 12% in local currency.

In addition, commissions paid, and other costs associated with the issuance amounted US\$1.2m, leaving US\$ 423.8m available for project funding.

Table 1, on next page, shows BNCR's Green Portfolio balance as of December 31, 2020, which fairly exceeds the net

proceeds from the issuance.

As of December 31, 2020, BNCR has funded a total of US\$ 404.86m in Eligible Green Projects. Of those, US\$ 238.58. are allocated to 8 hydro projects with a total installed capacity of 235.8 MW and US\$ 166.27m to 5 wind farms with a total installed capacity of 124.4 MW.

Table 1: Green Projects Portfolio, Dec 31, 2020

| Nature of the Project | Project | Year Funded | Project Term | Installed Capacity | BNCR Investment | Balance, December 2020. Dolar |
|-----------------------|--|-------------|--------------|--------------------|---------------------|-------------------------------|
| Hydro | Proyecto Hidroeléctrico Balsa Inferior | 2014 | 30 años | 37.5 | \$ 35.000.000 | 31,721,049 |
| Hydro | Proyecto Hidroeléctrico Ventanas | 2013 | 20 años | 10 | \$ 8.648.380.70 | 7,337,581 |
| Hydro | Proyecto Hidroeléctrico Los Negros II | 2015 | 20 años | 27.8 | € 25,733,333,333.33 | 39,386,827 |
| Hydro | Proyecto Hidroeléctrico Toro 3 | 2014 | 14 años | 50 | \$ 141.892.327.19 | 86,559,531 |
| Hydro | Proyecto Hidroeléctrico Bjugua | 2014 | 20 años | 17.5 | €15.000.000.000 | 21,282,740 |
| Hydro | Proyecto Hidroeléctrico La Esperanza | 2014 | 20 años | 70 | € 8,000,000,000.00 | 11,023,949 |
| Hydro | Proyecto Hidroeléctrica Tacares | 2010 | 15 años | 8 | € 6,525,000,000.00 | 7,226,703 |
| Hydro | Proyecto Hidroeléctrico Platanaar | 2016 | 25 años | 15 | €25.000.000.000 | 34,040,519 |
| Wind | Proyecto Eólico los Santos | 2012 | 15 años | 12.75 | \$20.000.000 | 4,993,001 |
| Wind | Proyecto Eólico Fila Mogote | 2014 | 17 años | 21 | \$ 37,693,000.00 | 28,269,750 |
| Wind | Proyecto Eólico Chiripa | 2015 | 16 años | 49.5 | \$ 111,000,000.00 | 74,059,464 |
| Wind | Proyecto Eólico Tilawind | 2013 | 20 años | 20 | \$ 30,480,000.00 | 24,969,789 |
| Wind | Proyecto Eólico Cacao | 2016 | 20 años | 21.15 | €23.200.000.000 | 33,984,695 |
| TOTAL | | | | | | 404,855,596.62 |

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