Moody's Investors Service

Credit Opinion: Banco Internacional de Costa Rica, S.A.

Global Credit Research - 14 Dec 2009

Panama City, Panama

Ratings

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Ba1/NP
Bank Financial Strength	D

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Key Indicators

Banco Internacional de Costa Rica, S.A.

	[1]2009	2008	2007	2006	2005	Avg.
Assets (US$B)	0.92	0.80	0.75	0.71	0.61	[2]6.96
Shareholder's Equity (US$M)	109.32	100.68	94.78	86.49	80.31	[2]1.91
ROAA (%)	1.15	0.83	1.14	0.94	0.68	0.85
ROAE (%)	9.38	6.55	9.16	7.43	5.39	6.69
Net Interest Margin (%)	2.97	2.94	2.67	2.88	2.65	2.78
Non-Accruing Credits / Gross Loans (%)	1.54	0.22	0.20	0.20	1.26	0.45
Non-Accruing Credits / (Reserves + S. Equity) (%)	7.38	1.25	1.08	1.01	5.95	2.18
Oper. Expenses / Gr. Oper. Revenues (%)	58.92	65.98	62.55	64.47	67.41	64.97

[1] As of September 30. [2] Compound annual growth rate.

Opinion

SUMMARY RATING RATIONALE

Banco Internacional de Costa Rica, S.A. (BICSA)'s D bank financial strength rating (BFSR) and stable outlook incorporate the bank's established brand name in the niche markets in which it operates, namely corporate banking and international trade finance within Panama, Costa Rica, and other Central American countries, together with its improving financial fundamentals and risk management structure. The D BFSR, which maps to a Ba2 unsupported baseline credit assessment (BCA), reflects the bank's still modest earnings capacity, indicative of its emphasis on short term trade-related business as well as of a franchise in transition as the bank undergoes a management and geographic restructuring.

The BFSR also considers BICSA's relatively short track record under the bank's current business strategy and the risks inherent in its high growth proposition within the developing markets of its operating footprint. Improving country and banking system fundamentals in the Central American region coupled with the dynamic of regional integration nevertheless provide a solid platform for BICSA's growth strategy over the medium term.

Moody's assigns a final Ba1 rating to BICSA's long term foreign currency deposits, which derives from one notch of uplift from the bank's Ba2 BCA due to parental support. The bank's shareholders are Banco de Costa Rica (BCR), with a 51% stake, and Banco Nacional de Costa Rica (BNCR), with 49%, both 100% owned by the Costa Rican government. Moody's views the agreement between BCR and BNCR to maintain a ratio of 80% paid-in-capital to 20% undistributed earnings in BICSA as evidence of their strong support. This view also takes into account BICSA's strategic purpose as the shareholders' regional trade finance arm.

BICSA's earnings continued to improve in 2009 despite the challenging business environment particularly in the early part of the year thanks to management's focus on the bank's niche specializations as a corporate lender and trade finance provider to the region. The bank also took advantage of less aggressive marketing by the international banks -- that were refocusing their energies on their home markets -- to leverage, consolidate, and upscale its client base as well as to increase business volumes and profit margins. Credit spreads remained firm or slightly improved, which together with much lower funding costs and securities gains allowed the bank to report strong earnings growth through September 30th.

While BICSA was largely insulated from the global crisis given its lack of exposure to troubled subprime and other toxic assets, the bank experienced some pressure on its asset quality and funding, as did most banks in the region. Those dependent on wholesale dollar funding were particularly vulnerable to the pricing up and reduction of tenors by the international banks. BICSA nevertheless maintained access to bank lines and funding from its parent banks and bolstered its liquidity, by reducing its short term trade-oriented loan book and maintaining a large cash position. Adverse effects were therefore limited and with the widening of credit spreads the bank was able to quickly restore margins.

BICSA's challenges include increasing profitability, diversifying its funding, and maintaining its asset quality while rapidly expanding its credit business in the region's developing economies.

Credit Strengths

- Established brand in trade finance in Central America

- Strategic subsidiary of large government-owned Costa Rican banks with a clear mission and dedicated resources to develop cross border trade finance

- Experienced professional bankers in BICSA's various markets are in a position to nimbly develop new business

- Improving profitability, funding diversification, and risk-weighted capitalization

- Largely short term, trade-related credit portfolio enhances balance sheet liquidity and flexibility

- Continued investments and upgrades in technology and information systems enhance risk management capabilities

Credit Challenges

- Relatively short track record under current organizational structure and strategy

- Modest earnings relative to peers reflects developing franchise, emphasis on short term trade finance, and relatively high expense base

- Intense competition from regional and international banks in target niches pressures margins

- Reliance on wholesale funding results in higher average funding costs

- Central American economies negatively affected by global downturn, dampening loan demand and pressuring asset quality

- Above average loan leverage partly mitigated by short term book and improved liquidity and reserve coverage

- BICSA may be subject to political influence due to its ultimate government ownership

Rating Outlook

The outlook for all ratings is stable.

What Could Change the Rating - Up

Sustained improvements in profitability while maintaining good asset quality, liquidity and capitalization could result in upward rating pressure.

What Could Change the Rating - Down

Sharp deterioration in asset quality, liquidity, or capitalization could result in downward rating pressure.

Recent Results

For the first nine months of 2009, BICSA reported a strong 47.7% year-on-year increase in net income to US$ 7.4 million owing to strong (+ 13.4%) net interest income and fee (+16.8%) growth, and boosted by a quadrupling of securities-related income, despite much lower loan growth and higher administrative and credit expenses. The net interest margin remained resilient, rising to 2.97% from 2.78%, reflecting both the dip in dollar funding costs and wider spreads, remaining flat from year end December 2008. Securities income contributed an important 33% to the bottom line versus about 10% in the prior year as the bank took advantage of the more favorable rate environment. Pre-provision profitability as a percentage of risk-weighted assets (RWA) improved to 2.12% from 1.34% reflecting the higher revenues together with the contraction in RWA. Returns on average assets and equity rose to 1.15% and 9.38% respectively, from 0.83% and 6.55% as of year end 2008.

Non-performing loans (past due 90 days or more) rose to $8.7 million as of September 30th from $1.7 million in the prior year period, and to 1.5% as a percentage of total loans from 0.25%. The deterioration was mostly due to one very large loan, equal to a significant 70% of the first nine months' pre-provision income. Reserve coverage declined to 99.3% from 377.5% in the prior year period. In November, NPLs rose to $11.7 million and 1.9% of total loans, and reserve coverage dipped to 75%. Management expects these ratios to improve as of year end following the restructuring of the loan through a novation with the troubled company's new owner.

Business Profile

BICSA began operations in 1976 under a general banking license in Panama and as part of an initiative of Costa Rican public sector

banks to create a regional trade finance arm. The bank was established by Banco Nacional de Costa Rica to serve Central American corporations and to promote trade within the Central American common market. Later the other three state-owned commercial banks joined the project so that the Costa Rican banking system would be represented by one entity with one agreed-upon strategy.

In 2005, BNCR transferred its majority shareholding to Banco de Costa Rica as part of a restructuring of the bank. Since BICSA's initial capitalization of $1.25 million, the bank has grown to be the 14th largest bank in Panama with total assets of US$ 918.5 million and capital of $109.3 million as of September 30, 2009. BICSA operates a Miami agency since 1983.

DETAILED RATING CONSIDERATIONS

Detailed considerations on BICSA's ratings are as follows:

Bank Financial Strength Rating

As a point of reference, BICSA's assigned BFSR is currently one notch lower than the D+ (adjusted) outcome of Moody's bank financial strength rating scorecard. In the case of BICSA, the scorecard does not fully capture the transition, competitive and asset quality risks inherent in the bank's expansion strategy in Central America. BICSA's risk profile is comparable to that of similarly rated banks.

Qualitative Rating Factors (70% weighting)

Factor: Franchise Value

Trend: Improving

BICSA scores an E+ for franchise value, reflecting a D score for market share and sustainability and E scores for geographic diversification, earnings stability, and earnings diversification. These scores, which are comparable on a global basis, reflect the relatively small size of the Central American market and the bank's still limited market shares within its business niches.

Earnings stability refers to the predictability of earnings and tends to generate high scores for banks with a high percentage of stable retail or fee-generating businesses. It is therefore low for BICSA and others whose main source of earnings is wholesale lending. We indicate an improving trend for franchise value in light of BICSA's growing business profitability and efforts to diversify both assets and liabilities.

Factor: Risk Positioning

Trend: Improving

BICSA's risk positioning score primarily reflects a low score for corporate governance, which is derived from the bank's public sector ownership (i.e., the government of Costa Rica is considered a single owner) and particularly due to the lack of an independent board of directors. While BICSA's board is comprised of non-executive board members of the shareholder banks that are personally liable to the bank, they are appointed by the Costa Rican government. On Moody's scorecard, the lack of an independent board affects the overall risk positioning score due to the high importance placed on this risk factor with respect to management and decision-making.

Though BICSA's management is comprised of banking professionals drawn from the private and public sectors, as a sovereign-owned entity and because of strong ties to shareholder banks through the governing board, BICSA's asset allocation and profitability targets may still be subject to political influence. That said, the bank's corporate policies do not allow interference in the bank's governance, code of ethics, or credit policies and practices.

BICSA's D score for controls and risk management reflect the very short track record of the bank's current risk management structure, policies, and processes. However, Moody's views the direction of the bank's risk and liquidity management to be highly positive. BICSA's remaining scores for risk positioning are about average relative to global banks including credit, market risk, and liquidity management, or better in the case of financial reporting transparency (see below for details).

Controls and Risk Management:

The bank has reorganized and reinforced its risk management organization, having established a centralized oversight role in March 2008 for credit, market, and operational risk management for the countries in which it operates. In 2009, the bank added new executives to the management team in both business development and risk areas, including a Chief Business Officer, Chief Financial Officer, and Chief Credit Officer. Moody's believes that the new risk infrastructure is yet to be tested over time in the context of BICSA's mandate to expand within the region and with new clients.

Policies and practices have been homogenized to ensure a greater level of discipline and accountability at all levels and are supported by the bank's shareholders undergoing similar efforts. Independent Chief Risk Officer (2005) and Chief Compliance Officer (2006) roles based in Miami and staffed by experienced banking professionals were also established. Country managers in the various countries are career bankers with strong knowledge of their markets. The decision - making process for credit approvals is also now more integrated, supported by substantial systems upgrades.

Risk management discussions are held regularly among executives and the board. Monthly credit committees include discussions of largest credits, price risk, and liquidity risk. Monthly committees discuss investment portfolios and operational risk. There is an annual loan review process in place. Stop loss limits on trading are also in place and monitored regularly, and breaches are reported on the same day. Liquidity risk positions are reported daily. The bank continues to strengthen its treasury and asset-liability management, through a centralized treasury unit and personnel with expertise in market and operational risk issues.

BICSA's Enterprisewide Risk Management System is based on a risk control self-assessment methodology that requires joint participation of the risk units and internal audit. It is designed as a continuously interactive self-assessment process with quarterly updates and coordination with unit heads. The bank uses advanced statistical analysis methods such that senior management and

the Board are able to review credit and market risk VaRs on a monthly basis

BICSA's low score for controls reflects the bank's past regulatory issues at the Miami agency. That issue has been strictly dealt with and risk management policies and practices enhanced. In February 2008, the regulatory action was lifted based on the agency's compliance with an agreed action plan to improve the administrative and risk management practices of the bank.

Financial Reporting Transparency:

BICSA receives an above average B score for financial reporting transparency. The bank publishes complete financial statements based on IFRS as required by the Panamanian Superintendency of Banks which provide a level of detail consistent with its business profile. Details include country and industry exposures, problem loan and reserve coverage information, BIS capitalization ratios, risk-weighted assets, market risk exposure and stress testing information. Missing however for an A score for quality of published financials are profitability figures by business line, details on the largest credits, and VaR stress testing analysis.

Credit Risk Concentration:

BICSA's low borrower concentration score reflects the bank's large borrower concentrations relative to both pre-provision earnings and tier one capital, though the bank has been making efforts to reduce borrower concentrations in recent years. In addition, management's strategy is to focus its largest lending relationships on high quality names in its markets.

A low score for borrower risk concentration is not uncommon for corporate lenders in Latin America partly due to the region's very limited loan sales and securitization markets. The low borrower score overrides the bank's good score for industry concentrations as the scorecard registers the lower of the two scores.

Market Risk Appetite:

BICSA's average market risk appetite score reflects the bank's main focus on lending and deposit taking activities and its limited trading activities. The securities book is fairly contained at 8.9% of total footings and comprised primarily of high quality dollar-denominated securities as a hedge for the credit portfolio. Derivatives transactions are limited to interest rate swaps for hedging purposes. The bank does not take on foreign exchange exposure, lending only to companies that generate foreign exchange income.

Factor: Operating Environment

Trend: Improving

All Panamanian banks are subject to the same C+ score for operating environment. This includes a score of C for economic stability, a D score for integrity and corruption, and an A score for the Panamanian legal system. Economic stability is based on the standard deviation of Panama's nominal local currency GDP growth rates during the last 20 years. The integrity and corruption score is taken from a World Bank index, which ranks 212 countries worldwide.

The predictability and fairness of the Panamanian legal system and the effectiveness of contract law are scored based on our chosen proxy of the typical time (i.e., one year) it takes to foreclose on a residential mortgage. For Panama, the score is A; however, given the bank's important exposures in other markets, the adjusted score for the legal system has been lowered by one notch to B.

Factor: Regulatory Environment

Trend: Improving

In Panama, banks are regulated by the Superintendency of Banks (Superintendencia de Bancos de Panama, SBP). Moody's assessment of Panama's regulatory environment considers the SBP's commitment to Basle standards, the independence and enforcement powers of its regulatory body, as well as its adherence to global standards of best practices for reporting transparency, problem loan recognition, and risk control. Panamanian banks have been reporting under International Financial Reporting Standards since 1999.

While Moody's views the SBP as BICSA's primary regulator, the bank also benefits from oversight in the U.S. The Miami branch of the Atlanta Federal Reserve Bank and the State of Florida Office of Financial Regulation jointly supervise the Miami Agency. On a consolidated basis, BICSA is also supervised by SUGEF, the banking regulator of Costa Rica.

Quantitative Rating Factors (30% weighting)

Factor: Profitability

Trend: Improving

BICSA's earnings have grown consistently since the 2004 reorganization, which included the spin-off of BICSA's Costa Rican subsidiaries to BNCR, and concluded with the merger through acquisition of BICSA Corporación Financiera into the surviving entity, Banco Internacional de Costa Rica, S.A. (Panama). The overall effect of the reorganization was a streamlining of the bank's corporate and management structure and the repositioning of the bank's core business, i.e., the financing of trade in Central America.

During 2009 BICSA's net income grew strongly due to higher net interest, fees and securities income. Continued high provisions affected bottom line earnings, a trend we expect to see for the next few quarters as economic conditions and hence asset quality remains under pressure overall. Incremental provisioning costs were absorbed by securities gains, which management expects to remain strong through the fourth quarter of 2009 and into 2010. Loan growth and income has already begun to pick up which should also help support continued high provisioning needs.

BICSA's modest earnings continue to reflect its transitioning and re-building mode, as well as its emphasis on short term trade

finance. The bank's narrow net interest margin is just below 3%, in light of this emphasis and its dollarized portfolio as well as its reliance on purchased funds. Pre-provision profitability to risk-weighted assets remains below the peer group average, though but in recent years it has been enhanced by increased income from treasury operations and fees and strict control of operating costs. Fee income nevertheless remains weak as both as a percentage of gross revenues (14%) and as coverage of operating expenses (28%), partly because of the wholesale source of its commissions and competition for business with quality borrowers.

Factor: Liquidity

Trend: Neutral

BICSA liquidity score is a combination of two scores, one qualitative and one quantitative. The qualitative score measures the quality of the bank's liquidity management based on the maturity and gap structure of the balance sheet, the relative reliance on typically less stable market funding, and funding concentrations. The quantitative score measures the bank's exposure to market funds less the store of liquid funds on the balance sheet.

BICSA's reliance on wholesale funding limits its flexibility vis-à-vis commercial banks with important retail operations and inherently more stable core funding. However, the bank maintains a conservative maturity match of its assets and liabilities that provides a cushion to cover its short term obligations.

BICSA's funding profile has had a relatively stable history given that the bank is predominantly deposit-funded (71% of total liabilities) sourced about one third each from corporations, individuals, and banks (including shareholder banks). The bank does display important corporate deposit concentrations, with the 25 largest depositors contributing about 35% of total deposits. Funding through banks also remains relatively high, at one third of total deposits as of September 2009.

Tenor mismatches however tend to be limited, because of the bank's short term profile. Management is looking to extend its funding maturities through issuances of three to five year debt. During the second quarter 2009 the bank issued a second tranche of medium term debt in the Panamanian market and is in the process of preparing an issue to be distributed in Guatemala and El Salvador.

BICSA's holdings of liquid assets comprised a significantly higher 27% of total assets as of September 30, 2009, about half of which was devoted to cash, reflective of management's high focus on liquidity in the context of volatile global markets. Loan leverage also came down dramatically to 62% from a very high 78% in 2008; however current levels are not sustainable in light of the bank's predominantly lending business model and loan growth plans. Loan leverage in BICSA's case is partly mitigated by the portfolio's largely short term nature and trade finance focus. About 65% of maturities are under one year, with the bulk (58%) maturing within 180 days, and 15% in the one to three year range.

Factor: Capital Adequacy

Trend: Neutral

BICSA is adequately capitalized considering its predominantly lending business and growth strategy, with a reported BIS ratio of 17.4% (tier one: 16.4%) as of September 30, 2009 as compared with management's target of 15%. The minimum regulatory capital ratio in both Panama and Costa Rica is 10%. We adjust the reported ratio for related party loans, which nevertheless results in an A score for capital adequacy.

In addition, Moody's sensitivity analysis of potential losses on the bank's loan and securities portfolios considering both a conservative anticipated case and a harsher stress case show the bank's capitalization to be resilient to further asset quality deterioration within its rating category.

Factor: Efficiency

Trend: Improving

BICSA's efficiency score is at the global average of C. The average ratio of 64% operating expenses to operating revenue for the three years ended 2008 is high relative to that of regional peers, but displays an improving trend according to this measure and as a percentage of total assets. Management is targeting a 50%-55% range, which should be achieved with revenue growth and through the bank's commitment to technology to rationalize and centralize expenses.

Operating leverage nevertheless remains relatively high at this juncture considering BICSA does not have a retail branch network; however the bank maintains loan production offices in several countries which generate important costs.

Factor: Asset Quality

Trend: Neutral

BICSA maintains geographic concentrations in Central America's developing markets with a concentration however on those with the strongest credit profiles and that are well known to management and its calling officers, i.e., Costa Rica (48%), Panama (33%), and Central America (19%). The loan portfolio is largely short term (65%), of which the lion's share (89%) relates to corporates, with the 20 largest borrowing relationships amounting to 34% of the total.

The bank's loan portfolio is relatively diversified by economic sector, with its principal concentrations in the commercial (25.1%), industrial (24.6%), services (16.3%), and construction (12.7%) sectors. Direct exposure to the agricultural segment is a moderate 7%.

There is minimal (less than 1%) public sector lending exposure. In the current market environment, management has focused on shorter maturities partly as a function of the shorter financing tenors being made available to the bank as well as being more selective than normal in its new lending activities.

BICSA's investment portfolio is utilized by management as a hedge for the bank's credit portfolio. During 2009, the bank shifted the asset mix away from a concentration in Panamanian and Costa Rican sovereigns towards a more diversified mix of highly rated international credits. As of September 30th, about 25% of the portfolio was devoted to investment grade supranationals, 14% to Aaa-rated US agencies, about 35% to Latin American sovereigns rated either investment grade or high speculative grade. About 16% of the portfolio is related to collateralized loan notes issued against the sovereign risk of Panama and Costa Rica, both rated Ba1 by Moody's.

BICSA's still relatively low non-performing loan levels and good reserve and capital coverage are indicative of its focus on target clients and proactive management of problem loans. Asset quality came under pressure during the year, as for most banks in the region, as past dues and non-performers rose together with credit costs. While the bulk of the increase in non-performers was related to one large loan, excluding that loan non-performers on a nominal basis are still on the rise through the end of the year, pointing to a not unexpected weakening of borrower quality in the midst of still pressured business conditions.

Within this context, Moody's remains vigilant with respect to the potential for further credit quality problems during the next quarters. The principal risks we see for BICSA's asset quality lie in its high growth lending strategy within Central America's still developing markets and with commercial issuers that are also in a high growth mode. These risks could rise should the bank increase its risk appetite or deviate from its area of specialization.

We note a neutral trend however for BICSA given the bank's proactive credit management and particularly its solid capitalization, the latter which compensates for the decline in reserve coverage from historical levels. Ex-ante loan restructurings are proving to be an effective tool to manage past due loans.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's does not assign BICSA a local currency deposit rating as it is a dollar-denominated bank operating in Panama, a fully and legally dollarized country. Panama has used the US dollar as legal tender since 1903 and bank deposits in Panama are all US dollar-denominated. Moody's therefore only assigns a foreign currency deposit rating to BICSA.

As Panama has no central bank and hence no true lender of last resort for banks, Moody's does not consider systemic support for Panamanian bank ratings. Nevertheless, banks may benefit from indirect support, such as regulatory or accounting forbearances, that the Panamanian supervisors might allow in order to ensure financial system stability.

BICSA's Ba1 deposit rating does however incorporate one notch of uplift due to parental support based on the financial strength of its shareholders. We believe that the Costa Rican authorities are not likely to offer direct liquidity or capital support to the bank as an institution domiciled in Panama and because the deposit guarantee provided to Costa Rica's government-owned banks would not extend to this entity. However, BICSA benefits from indirect support from its shareholders through a conservative dividend policy and through asset sales.

Foreign Currency Deposit Rating

Moody's assigns a foreign currency deposit rating of Ba1 to BICSA, which incorporates one notch of uplift due to the management and capital support of its shareholders, Banco de Costa Rica and Banco Nacional de Costa Rica. As such, the deposit rating is unconstrained by the Baa2 Panamanian country ceiling for deposits.

Notching Considerations

Senior debt would be rated similarly to deposits. Junior obligations would be subject to Moody's standard notching practices.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point Aaa-C rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the Aaa-C scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party.

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

National Scale Rating

National scale ratings are intended primarily for use by domestic investors and are not comparable to Moody's globally applicable ratings; rather they address relative credit risk within a given country. A Aaa rating on Moody's National Scale indicates an issuer or issue with the strongest creditworthiness and the lowest likelihood of credit loss relative to other domestic issuers. National Scale Ratings, therefore, rank domestic issuers relative to each other and not relative to absolute default risks. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the National Scale.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt obligations may also be constrained by the country ceiling for foreign currency bonds and notes: however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's Bank Financial Strength Scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Banco Internacional de Costa Rica, S.A.

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (70%)						**D+**	
Factor: Franchise Value						**E+**	**Improving**
Market Share and Sustainability				**x**			
Geographical Diversification					**x**		
Earnings Stability					**x**		
Earnings Diversification [2]					**x**		
Factor: Risk Positioning						**E**	**Improving**
Corporate Governance [2]					**x**		
- Ownership and Organizational Complexity	--	--	--	--	**--**		
- Key Man Risk	--	--	--	--	--		
- Insider and Related-Party Risks	--	--	--	--	--		
Controls and Risk Management				**x**			
- Risk Management				x			
- Controls				x			
Financial Reporting Transparency		x					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information		x					
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		

- Industry Concentration	--	--	--	--	--		
Liquidity Management			x				
Market Risk Appetite			x				
Factor: Operating Environment						C+	Improving
Economic Stability			x				
Integrity and Corruption				x			
Legal System	x						
Financial Factors (30%)						B-	
Factor: Profitability						C	Improving
PPP % Avg RWA - Basel I			1.50%				
Net Income % Avg RWA - Basel I			1.19%				
Factor: Liquidity						C	Neutral
(Mkt funds-Liquid Assets) % Total Assets			9.55%				
Liquidity Management			x				
Factor: Capital Adequacy						A	Neutral
Tier 1 ratio (%) - Basel I	15.27%						
Tangible Common Equity / RWA - Basel I	15.27%						
Factor: Efficiency						C	Improving
Cost/income ratio			64.33%				
Factor: Asset Quality						A	Neutral
Problem Loans % Gross Loans	0.21%						
Problem Loans % (Equity + LLR)	1.11%						
Lowest Combined Score (9%)						C	
Economic Insolvency Override						Neutral	
Aggregate Score						C-	
Assigned BFSR						D	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

Moody's Investors Service

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