MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms BICSA's Ba1 deposit rating; changes outlook to positive on financial strength rating

Global Credit Research - 28 Jan 2011

New York, January 28, 2011 -- Moody's Investors Service affirmed the Ba1 and Not Prime long- and short-term foreign currency deposit ratings of Banco Internacional de Costa Rica, S.A. (BICSA). Moody's also affirmed the bank's D bank financial strength rating (BFSR) and changed the outlook on the BFSR to positive from stable.

The following rating outlook has been changed to positive, from stable:

Bank financial strength: D

The following ratings have been affirmed:

Long-term foreign currency deposits: Ba1, stable outlook

Short-term foreign currency deposits: Not Prime

RATING RATIONALE

Moody's said the positive outlook on BICSA's BFSR reflects the bank's growing franchise and profitability as a lender and trade finance provider within the expanding economies and regional trade of Central America, its main operating footprint. The change in outlook also incorporates the bank's improving revenue and funding diversification, which reflects the bank's increasing emphasis on value-added lending, including a strategy of originating and distributing structured finance transactions, the latter activity which should support BICSA's capital and liquidity. The notable strengthening of the bank's risk management organization and processes will continue to be tested as BICSA expands into new markets and with new clients throughout the region. The bank's D BFSR maps to a stand-alone baseline credit assessment of Ba2.

Moody's noted that upward movement on the unsupported BFSR would depend on the sustainability of BICSA's business model and its ability to generate earnings without compromising asset quality. Continued control of operating costs, together with improvement in the bank's 52% cost-income ratio, will also be key to profit performance and align it better with its wholesale banking profile. A rating upgrade would also hinge on the bank's ability to maintain solid loss reserve coverage and capitalization ratios as it continues its expansion in order to guard against future asset quality surprises.

Moody's indicated that a principal risk to BICSA's BFSR is the bank's large borrower concentrations relative to capital and earnings, a factor that adds potential volatility to the bank's asset quality and earnings. Increased loan granularity would therefore also provide positive momentum to BICSA's stand alone rating.

BICSA's Ba1 deposit rating incorporates Moody's assessment of a high probability of support from its controlling shareholders, Banco de Costa Rica, with a 51% stake, and Banco Nacional de Costa Rica, with a 49% stake, both wholly-owned by the Costa Rican government, as well as their endorsement of the bank's strategy of developing international business on their behalf with Costa Rican and other Central American companies.

The last rating action on Banco Internacional de Costa Rica S.A. (BICSA) was on June 12, 2008, when Moody's assigned the bank Ba1/Not Prime foreign currency debt ratings and a D rating for bank financial strength.

The principal methodologies used in rating BICSA were Bank Financial Strength Ratings: Global Methodology, published in February 2007, and Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology, published in March 2007. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

Based in Panama City, Panama, BICSA reported total assets of US$ 977.9 million, equity of US$ 123 million, and net income of US$ 10.3 million as of September 30, 2010.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's Investors Service considers the quality of information available on the issuer or obligation satisfactory for the purposes of assigning a credit rating.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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