

## **Banco Internacional De Costa Rica S.A. Ratings Affirmed; Outlook Stable.**

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### **Overview**

- BICSA's adequate financial performance has remained resilient to the global economic slowdown.
- We are affirming Banco Internacional de Costa Rica S.A. (BICSA)'s counterparty credit ratings.
- The stable outlook reflects our expectation that the bank will maintain its financial performance because of its tighter operational controls and its disciplined approach to loan portfolio growth.

### **Rating Action**

On August 22, 2011, Standard & Poor's Ratings Services affirmed its 'BB/B' counterparty credit rating on Banco Internacional de Costa Rica S.A. (BICSA). The outlook is stable.

### **Rationale**

Standard & Poor's Ratings Services' ratings on Banco Internacional de Costa Rica S.A. (BICSA) are constrained by its asset concentration in Central American nations with long-term sovereign ratings in the 'BB' category. However, the ratings are supported by the bank's improving financial performance, which has remained resilient to the global economic slowdown and an experienced management team in the trade finance business.

We base the ratings on BICSA solely on its stand-alone credit profile, rather than on expected extraordinary support from the government. We consider BICSA as a government-related entity (GRE) in the Republic of Costa Rica (foreign currency: BB/Stable/B; local currency: BB+/Stable/B), because of a shareholding structure through which the country's two largest public banks wholly own it. We believe that the link between BICSA and Costa Rica's government is limited. Therefore, we do not factor any notches of support into the ratings.

The bank has significant exposure in Central America, with approximately 70% of its assets concentrated in this region as of June 30, 2011. On the other hand, management has taken steps in order to diversify its investment portfolio in countries with higher ratings. Although the bank's exposure to nations with long-term sovereign ratings of 'BB' has decreased following a more conservative strategy and approach to risk, overall exposure to 'BB' rated economies still remains at about 50%, and the more adverse economic conditions in these countries remain a challenge. A more-diversified portfolio is a must for higher ratings, but we do not expect the loan portfolio to diversify significantly given the bank's background and business lines.

Recurrent profitability has been improving. As of June 30, 2011, its net income of \$7.5 million--a return on assets (ROA) of close to 1.3%--is similar to that of other banks with the same rating. We expect the bank's efficiency to remain close to 50% through 2011.

Enterprise risk management is adequate, and we believe that BICSA has improved its credit origination processes and operational risks. It has strengthened its management, and we expect it to undergo structural changes that will also build up its financial profile. Given the portfolio's inherent risks, the bank needs to work constantly on maintaining asset quality. Although BICSA has been working on decreasing its main exposures, its loan portfolio still shows significant concentrations by customer, exposing it to large increases in NPAs when a client defaults. Given the portfolio's geographic mix, the bank needs to focus on maintaining asset quality, but on the

other hand, short-term nature of the bank's loan portfolio also gives it more flexibility than other banks to adapt to changing market conditions. We expect NPL's to remain close to 3% during 2011.

**Outlook**

The stable outlook reflects our expectation that the bank will maintain its financial performance due to its tighter operational controls, more-disciplined approach to loan portfolio growth, and improvements in corporate governance. We could lower the ratings if economic conditions in the countries in which it operates significantly affect the loan portfolio's asset quality, profitability, and capitalization. We could also raise the ratings if the sovereign ratings of the main countries where the bank operates improve.

**Related Research**

“Enhanced Methodology And Assumptions For Rating Government-Related Entities”, June 29, 2009

“FI Criteria: Bank Rating Analysis Methodology Profile”, March 18, 2004