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FitchRatings

Banks
Universal Commercial Banks
Costa Rica

Banco Nacional de Costa Rica

Update

Key Rating Drivers

Issuer Default Ratings Driven by Sovereign Support: Banco Nacional de Costa Rica's (BNCR, or the bank) Issuer Default Ratings (IDRs) and National Ratings are driven by Fitch Ratings' assessment of the potential support the bank would receive, if needed, from its single owner, the Costa Rican government (BB/Rating Outlook Stable). The Rating Outlook on the bank's Long-Term IDRs is Stable, mirroring the sovereign Rating Outlook.

Upgrade Driven by Costa Rican Upgrade: On March 4, 2024, Fitch upgraded BNCR's Long-Term Foreign Currency and Local Currency IDRs to 'BB' from 'BB–', resulting from the upgrade of its Government Support Rating (GSR) to 'bb' from 'bb–'. This reflects the same action on the Costa Rican sovereign Long-Term Foreign Currency and Local Currency IDRs, to 'BB' from 'BB–', occurring on Feb. 28, 2024.

Sovereign's Ability and Propensity to Provide Support: In the support assessment, Fitch considers, with high importance, the Costa Rican sovereign rating. The government's propensity to provide support is driven, with high influence, by the explicit guarantee stated in the National Banking System Law (article 4) for BNCR as a state-owned bank. The law stipulates that the government is responsible for all nonsubordinated liabilities of the state-owned banks in the event of their liquidation.

Improved Operating Environment: The bank's 'bb' Viability Rating (VR) reflects its sound business profile, characterized by a relatively high total operating income (2019–2022 average: USD564 million) and its strong market position as the largest bank in Costa Rica in terms of assets. Fitch recently raised its operating environment (OE) assessment, which drove the VR upgrade to 'bb' from 'bb–'.

Good Asset Quality: BNCR's asset quality has been proactively managed, with a nonperforming loans (NPLs) ratio of 2.1% as of December 2023. This benefits from adequate reserve coverage of 124.3%, in addition to a relevant proportion of credits with real guarantees.

Moderate Profitability: Profitability has been moderate, measured as the ratio of operating profit to risk-weighted assets (RWA). This ratio was 1.9% as of December 2023, which is moderately lower yoy (by 2.1%). The reduction stems from lower operating efficiency, although this was partially compensated through adequate management of the net interest margin and a low ratio of credit reserve charges to operating profit before reserves.

Stable Capitalization: The bank's capital position has been stable in recent years and provides cushion for unexpected credit losses. As of September 2023, Fitch Core Capital (FCC) to RWA was 12.5% (December 2022: 12.3%). This ratio was sustained despite greater loan growth compared to prior years of 5.1 % (2022: 3.8%), compensated by a good pace of internal capital generation.

Good Funding and Liquidity Profile: The bank's liquidity is supported by its wide deposit base, ample access to alternative funding and the guarantee of the government of Costa Rica. As of September 2023, deposits represented 88.6% of total funding and the credit-to-deposits indicator was 75.1%, comparing well to the banking system.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

- BNCR's IDRs and GSR would be downgraded in the event of a downgrade to Costa Rica's sovereign rating.

Ratings

Foreign Currency	
Long-Term Issuer Default Rating[a]	BB
Short-Term Issuer Default Rating	B
Local Currency	
Long-Term Issuer Default Rating[a]	BB
Short-Term Issuer Default Rating	B
Viability Rating[b]	bb
Government Support Rating[b]	bb
National Rating	
National Long-Term Rating	AA+(cri)
National Short-Term Rating	F1+(cri)
Sovereign Risk (Costa Rica)	
Long-Term Foreign Currency Issuer Default Rating[c]	BB
Long-Term Local Currency Issuer Default Rating[c]	BB
Country Ceiling[d]	BBB–

[a]Rating raised to 'BB' from 'BB–' on March 4, 2024.
[b]Rating raised to 'bb' from 'bb–' on March 4, 2024.
[c]Rating raised to 'BB' from 'BB–' on Feb. 28, 2024.
[d]Rating raised to 'BBB–' from 'BB' on Feb. 28, 2024.

Rating Outlooks

Long-Term Foreign Currency Issuer Default Rating	Stable
Long-Term Local Currency Issuer Default Rating	Stable
National Long-Term Rating	Stable
Sovereign Long-Term Foreign Currency Issuer Default Rating	Stable
Sovereign Long-Term Local Currency Issuer Default Rating	Stable

Applicable Criteria

Bank Rating Criteria (March 2024)
National Scale Rating Criteria (December 2020)

Related Research

Fitch Upgrades Six Banks Following Costa Rican Sovereign Upgrade (March 2024)

Fitch Upgrades Costa Rica to 'BB'; Outlook Stable (February 2024)

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- BNCR's VRs would be downgraded by a downward revision of Fitch's assessment of the Costa Rican OE; however, this currently is not Fitch's base case given the stable OE trend. Additionally, BNCR's VR would be downgraded by materially greater loan portfolio deterioration that diminishes operating profitability to levels below 1.25% and pressures the FCC-to-RWA ratio consistently below 10%.

Factors that could, individually or collectively, lead to positive rating action/upgrade

- BNCR's IDRs, VR and GSR could be upgraded in the event of an upgrade to Costa Rica's sovereign rating; however, this currently is not Fitch's base case given the sovereign Rating Outlook of Stable.
- Although not Fitch's base case, an upward revision of Fitch's Costa Rican OE assessment coupled with a consistent financial performance and business profile could lead to an upgrade of BNCR's VR. The sovereign rating acts as a cap to the bank's VR.

Other Debt and Issuer Ratings

Rating Type	Rating — National Scale
Senior Unsecured Long Term	AA+(cri)
Senior Unsecured Short Term	F1+(cri)

Source: Fitch Ratings

The national ratings of the senior unsecured debt are in line with the bank's national ratings, as the likelihood of default on the debt is the same as that of BNCR.

Significant Changes from Prior Review

Sovereign Rating Upgraded; More Favorable Operating Environment for Banks

Fitch upgraded Costa Rica's sovereign rating to 'BB'/Stable from 'BB–'/Stable on Feb. 28, 2024. This action reflects an ongoing commitment to the fiscal rule that is anchoring continued structural improvement in Costa Rica's fiscal position, as well as robust economic growth and improvement in external liquidity position. GDP growth is estimated at 5.4% in 2023 and 3.7% in 2024.

Fitch recently revised its OE assessment for Costa Rican banks to 'bb'/stable from 'bb–'/stable. This factors favorable performance of Fitch's core metrics, Operational Risk Index (ORI) percentile rank and per capita income, as well as the sovereign's stronger credit profile. Moreover, the OE revision incorporates Costa Rica's strong economic growth, reinforced at the local level by investment recovery and stronger household consumption. The improved OE is expected to foster business expansion opportunities for banks, benefiting their financial performance.

For more information, see "Fitch Upgrades Six Banks Following Costa Rican Sovereign Upgrade," dated March 4, 2024, and "Fitch Upgrades Costa Rica to 'BB'; Outlook Stable," dated Feb. 28, 2024. These reports are available at www.fitchratings.com).

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Ratings Navigator

Banco Nacional de Costa Rica

ESG Relevance:

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	Operating Environment	Business Profile	Risk Profile	Financial Profile: Asset Quality	Financial Profile: Earnings & Profitability	Financial Profile: Capitalisation & Leverage	Financial Profile: Funding & Liquidity	Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
		20%	10%	20%	15%	25%	10%				
aaa								aaa	aaa	aaa	AAA
aa+								aa+	aa+	aa+	AA+
aa								aa	aa	aa	AA
aa-								aa-	aa-	aa-	AA-
a+								a+	a+	a+	A+
a								a	a	a	A
a-								a-	a-	a-	A-
bbb+								bbb+	bbb+	bbb+	BBB+
bbb								bbb	bbb	bbb	BBB
bbb-								bbb-	bbb-	bbb-	BBB-
bb+								bb+	bb+	bb+	BB+
bb								bb	bb	bb	BB Sta
bb-								bb-	bb-	bb-	BB-
b+								b+	b+	b+	B+
b								b	b	b	B
b-								b-	b-	b-	B-
ccc+								ccc+	ccc+	ccc+	CCC+
ccc								ccc	ccc	ccc	CCC
ccc-								ccc-	ccc-	ccc-	CCC-
cc								cc	cc	cc	CC
c								c	c	c	C
f								f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upward or downward to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

VR — Adjustments to Key Rating Drivers

The Operating Environment Score has been assigned below the implied score due to the following adjustment reason: Sovereign Rating (negative).

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Financials

Summary Financials

	2023[a]		2022	2021	2020	2019
	(USDm)	(CRCm)	(CRCm)	(CRCm)	(CRCm)	(CRCm)
(Years ended as of Dec. 31)	Not disclosed	Not disclosed	Not disclosed	Unaudited	Audited — unqualified (emphasis of matter)	Audited — unqualified (emphasis of matter)
Summary income statement						
Net interest and dividend income	406	219,147	290,038	248,854	240,267	244,938
Net fees and commissions	173	93,670	127,406	117,128	104,770	145,148
Other operating income	–82	–44,066	–50,798	–13,086	–16,662	–62,412
Total operating income	**498**	**268,751**	**366,645**	**352,896**	**328,375**	**327,673**
Operating costs	335	181,072	236,888	217,582	208,239	207,898
Pre-impairment operating profit	162	87,678	129,758	135,314	120,135	119,775
Loan and other impairment charges	27	14,561	25,616	67,180	62,435	44,715
Operating profit	135	73,117	104,142	68,134	57,700	75,061
Other non-operating items (net)	–37	–20,085	–23,465	–14,961	–12,292	–17,000
Tax	62	33,691	43,360	34,021	30,673	34,359
Net income	36	19,341	37,317	19,152	14,735	23,702
Other comprehensive income	16	8,456	–28,868	14,579	6,013	14,479
Fitch comprehensive income	51	27,797	8,449	33,731	20,747	38,181
Summary balance sheet						
Assets						
Gross loans	**9,157**	**4,943,749**	**4,705,656**	**4,534,331**	**4,358,712**	**4,286,218**
– of which impaired	194	104,579	123,275	123,995	159,437	142,606
Loan loss allowances	241	130,018	139,366	135,831	155,528	118,507
Net loans	**8,916**	**4,813,731**	**4,566,290**	**4,398,499**	**4,203,184**	**4,167,711**
Interbank	411	222,171	340,262	324,290	454,231	277,892
Derivatives	0	88	16	7,724	15,753	10,748
Other securities and earning assets	3,205	1,730,184	1,541,095	1,858,837	1,428,307	1,476,405
Total earning assets	**12,532**	**6,766,174**	**6,447,665**	**6,589,351**	**6,101,476**	**5,932,754**
Cash and due from banks	2,296	1,239,570	1,130,612	1,031,551	929,671	840,884
Other assets	710	383,192	389,078	404,418	458,967	351,968
Total assets	**15,538**	**8,388,936**	**7,967,355**	**8,025,320**	**7,490,115**	**7,125,607**
Liabilities						
Customer deposits	12,188	6,580,304	6,142,056	6,097,748	5,573,764	5,185,204
Interbank and other short-term funding	578	312,081	298,555	196,501	345,408	331,914
Other long-term funding	992	535,417	602,237	799,073	609,586	678,093
Trading liabilities and derivatives	3	1,387	—	—	—	1,145
Total funding and derivatives	**13,760**	**7,429,189**	**7,042,848**	**7,093,323**	**6,528,758**	**6,196,356**
Other liabilities	353	190,776	184,541	200,480	263,571	237,313
Total equity	1,424	768,971	739,966	731,517	697,786	691,938
Total liabilities and equity	**15,538**	**8,388,936**	**7,967,355**	**8,025,320**	**7,490,115**	**7,125,607**
Exchange rate	—	USD1 = CRC539.910	USD1 = CRC598.080	USD1 = CRC642.160	USD1 = CRC613.915	USD1 = CRC573.290

[a]First nine months of 2023 only (9M23), ended Sept. 30. CRC – Costa Rican Colón
Source: Fitch Ratings, Fitch Solutions

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Key Ratios

(Years ended as of Dec. 31)	2023[a]	2022	2021	2020	2019
Ratios (%; annualized as appropriate)					
Profitability					
Operating profit/risk-weighted assets	1.9	2.1	1.5	1.3	1.9
Net interest income/average earning assets	4.5	4.4	3.9	3.9	4.3
Noninterest expense/gross revenue	68.0	65.0	61.9	63.6	64.1
Net income/average equity	3.4	5.1	2.7	2.1	3.5
Asset Quality					
Impaired loans ratio	2.1	2.6	2.7	3.7	3.3
Growth in gross loans	5.1	3.8	4.0	1.7	–5.2
Loan loss allowances/impaired loans	124.3	113.1	109.6	97.6	83.1
Loan impairment charges/average gross loans	0.4	0.6	1.5	1.4	1.0
Capitalization					
Fitch Core Capital ratio	12.5	12.3	12.5	12.3	13.8
Tangible common equity/tangible assets	8.7	8.6	8.3	8.4	8.7
Net impaired loans/Fitch Core Capital	–3.9	–2.7	–2.0	0.7	4.4
Funding and Liquidity					
Gross loans/customer deposits	75.1	76.6	74.4	78.2	82.7
Customer deposits/total non-equity funding	88.6	87.2	86.0	85.4	83.7

[a]First nine months of 2023 only (9M23), ended Sept. 30.
Source: Fitch Ratings, Fitch Solutions

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Support Assessment

Policy Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bb or bb-
Actual jurisdiction D-SIB GSR	bb
Government Support Rating	bb
Government ability to support D-SIBs	
Sovereign Rating	BB/ Stable
Sovereign financial flexibility (for rating level)	Neutral
Government propensity to support D-SIBs	
Resolution legislation	Neutral
Support stance	Neutral
Government propensity to support bank	
Systemic importance	Neutral
Liability structure	Positive
Ownership	Positive
Policy role and status	
Ownership	Equalised
Policy role	Equalised
Guarantees and legal status	Equalised

The colors indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

The recent upgrade of the GSR reflects the Costa Rican sovereign upgrade and Fitch's assessment of the potential support the bank would receive, if needed, from its single owner, the Costa Rican government.

In the GSR assessment, the agency factors, in terms of the ability to support BNCR, the Costa Rican sovereign's rating with high importance.

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Environmental, Social and Governance Considerations

FitchRatings

Banco Nacional de Costa Rica

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

Banco Nacional de Costa Rica has 5 ESG potential rating drivers

- Banco Nacional de Costa Rica has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			ESG Relevance to Credit Rating
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	4	issues	2
	5	issues	1

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	n.a.	n.a.	5
Energy Management	1	n.a.	n.a.	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

How to Read This Page

ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, due to either their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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