CREDIT OPINION
30 September 2024

Update

Send Your Feedback

RATINGS

Banco Nacional de Costa Rica

Domicile	San Jose, Costa Rica
Long Term CRR	Ba2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Fgn Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Ba3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Luis Fernando Baza +52.55.1253.5735
Lead Ratings Associate
luis.baza@moodys.com

» *Contacts continued on last page*

Banco Nacional de Costa Rica

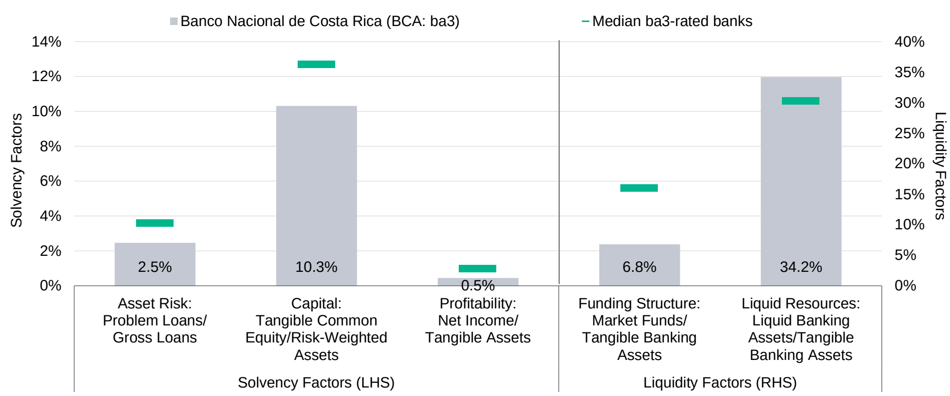
Update following rating upgrade, outlook remains positive

Summary

Banco Nacional de Costa Rica's (BNCR) ba3 baseline credit assessment (BCA) and Ba3 deposit and debt ratings reflect the bank's well-established banking franchise as the largest bank in Costa Rica (Ba3 positive), which ensures a steady core-funding structure from retail and public-sector, a condition linked to its policy mandate. BNCR also has ample liquidity buffers. On the other hand, its credit profile is constrained by the bank's modest profitability compared to peers in the country, resulting from its focus on lower-yielding asset classes and high mandatory transfers to government entities. These factors also restrict its ability to generate capital internally.

BNCR's ratings and positive outlook are in line with those assigned to the Government of Costa Rica, and incorporates the strong interlinkages between the bank's standalone credit risk profile and that of the sovereign, derived from its direct and indirect exposures to sovereign risk in the form of holdings in government securities and exposure to the operating environment.

Exhibit 1
Rating Scorecard - Key financial ratios
As of June 2024



For the asset-risk and profitability ratios, we calculate the average of the three latest year-end numbers and the latest quarterly data if available, and the ratio used is the weaker of the average versus the latest period. For the capital ratio, we use the latest figure. For the funding structure and liquid resources ratio, we use the latest year-end figures.
Source: Moody's Financial Metrics

Credit strengths

» Steady asset quality supported by enhanced macroeconomic conditions; FX risks remain limited

» Favorable funding structure, based on low-cost retail deposits

» Ample liquidity buffers

Credit challenges

» Modest profitability because of high mandatory transfers to government entities and narrow margins

» Internal capital generation remains limited

Outlook

The positive outlook on BNCR´s ratings considers the high underlying interlinkages between the bank's standalone credit risk profile and that of the sovereign, derived from its direct and indirect exposures to sovereign risk in the form of holdings of government securities and exposure to the operating environment.

Factors that could lead to an upgrade

The bank's ratings would be upgraded if Costa Rica's sovereign bond rating was to be upgraded considering our assessment of full public support for the bank.

Factors that could lead to a downgrade

Although unlikely at this point given the positive outlook, negative pressures on the bank's BCA and ratings could arise if asset quality deteriorates materially and unexpectedly from current levels, and earnings reverse its positive trend, with pressures coming from sudden increase in loan loss provisioning expenses.

Key indicators

Exhibit 2

Banco Nacional de Costa Rica (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (USD Million)	16,448.8	15,517.0	13,284.8	12,473.1	12,172.7	9.0[4]
Tangible Common Equity (USD Million)	1,301.8	1,265.1	1,039.1	915.1	934.8	9.9[4]
Problem Loans / Gross Loans (%)	2.2	2.4	2.6	2.7	3.6	2.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	--	--	11.9	11.0	11.9	11.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	13.7	15.6	16.2	17.1	21.9	16.9[5]
Net Interest Margin (%)	4.1	3.8	3.7	3.3	3.4	3.7[5]
PPI / Average RWA (%)	--	--	2.6	2.8	--	2.7[6]
Net Income / Tangible Assets (%)	0.6	0.5	0.5	0.2	0.2	0.4[5]
Cost / Income Ratio (%)	62.9	70.5	70.7	67.0	69.0	68.0[5]
Market Funds / Tangible Banking Assets (%)	6.1	6.8	10.1	11.8	11.9	9.3[5]
Liquid Banking Assets / Tangible Banking Assets (%)	35.4	34.2	36.2	38.0	35.7	35.9[5]
Gross Loans / Due to Customers (%)	75.6	78.4	78.4	76.2	79.6	77.6[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel I; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel I periods.
Sources: Moody's Ratings and company filings

Profile

Banco Nacional de Costa Rica (BNCR) is the largest bank in Costa Rica, with a market share of 26% in terms of total loans and 29% in terms of total deposits as of June 2024. The bank provides retail, corporate and international banking, and other financial products and services, including checking and savings accounts, mortgages, loans, letters of credit, securities brokerage, insurance, pension funds, investments and short-, medium- and long-term financing. BNCR is wholly owned by the Costa Rican government.

As of June 2024, the bank has total consolidated assets of $16.4 billion.

Detailed credit considerations

Steady asset quality supported by enhanced macroeconomic conditions

Asset quality remains strong, supported by Costa Rica's resilient economic performance, which has helped households and business maintain their repayment capacity. Non-performing loans (NPLs) have remained manageable, amounting to 2.2% of gross loans as of June 2024, mirroring the figures from June 2023. The stability in this metric is supported by the record low unemployment rate observed in July 2024, reduced inflationary pressures, and a more accommodating monetary policy.

Over the past five years, the bank has reported prudent growth, reaching an annual growth rate of 5.8% as of June 2024, which is slightly higher than the 5.0% recorded for the full year 2023. BNCR's loan portfolio is primarily concentrated in commercial lending, accounting for 56% of total loans, with a focus on the service, electricity, water, and sanitary services sectors. Residential mortgages make up 29% of the portfolio, while the consumer segment represents 15%. This segment has seen rapid expansion, with an annual growth rate of 27% as of June 2024, driven by a favorable operating environment. However, this growth could pressure asset quality in the next 12 months. To mitigate this, the bank has maintained ample reserves for expected credit losses. As of June 2024, loan loss reserves represent 2.9% of total loans, providing a 133% reserve coverage of problem loans, up from 122% a year earlier.

Foreign exchange risk remains limited, with 27% of total loans denominated in foreign currency as of June 2024. In comparison, private banks have a higher share at 65% for the same period. Moreover, only 31% of BNCR's foreign currency loans are granted to borrowers who do not generate hard currency, which mitigates the exposure of its loan portfolio to foreign exchange shocks.

BNCR benefits from a relatively diversified loan book, with top 20 borrowers accounting for 95% TCE in June 2024, mainly related to government-sponsored infrastructure projects. Part of the bank's credit exposure continued to comprise government-backed infrastructure projects and electricity companies.

Core capitalization remains modest

BNCR's core capitalization, measured by Tangible Common Equity (TCE) to consolidated Risk Weighted Assets (RWAs), decreased to 10.3% as of June 2024, down from 11.3% in June 2023. Although BNCR does not pay dividends, it is subject to corporate income tax and mandatory transfers to public entities, which have been the main drivers of the TCE decline in recent quarters. In the first half of 2024, the bank paid CRC16.154 million in these government-mandated transfers, amounting to 43% of 2023's net income. Our TCE metric incorporates a 100% risk weighting for government securities, as suggested by Basel weighting for Ba-rated sovereigns.

The regulatory total capital ratio stood at 13.5% as of June 2024, well above the regulatory thresholds. Going forward we expect capital metrics will remain limited by high government-mandated transfers, which limits the bank´s earnings generation.

Significant government-mandated transfers impact profitability and margins, highlighting the bank's public mandate

BNCR's profitability has historically been low due to high mandatory transfers to government entities, narrow margins, and relatively weak efficiency. However, in June 2024, the bottom line improved, benefiting from higher margins and efficiency enhancements. Net income rose to 0.6% of tangible assets in June 2024, up from 0.4% a year earlier.

The bank's net interest margin (NIM) is relatively narrow compared to other banks in the system, due to its limited exposure to consumer lending and substantial liquidity holdings. However, BNCR benefits from very low funding costs, thanks to its significant market share in low-cost retail deposits and deposits from public entities. The bank's NIM, as calculated by Moody's, increased to 4.2% in June 2024 from 3.8% a year earlier, primarily due to lower funding costs as reference rates in Costa Rica began to decrease in the second half of 2023. Consequently, the bank's interest expense decreased by 12.5% year-over-year in the first half of 2024.

BNCR's efficiency metrics, measured as cost to income, remain weak but have improved to 62.9% as of June 2024, down from 67.9% a year earlier, reflecting lower inflationary pressures in the country. On the other hand, provisioning expenses increased to 1.2% of gross loans in the first six months of 2024, up from 0.5% in the same period of 2023. The growth in this ratio aligns with the higher growth observed in recent quarters, particularly in the consumer segment.

Good access to low-cost retail deposits, coupled with strong liquidity buffers

BNCR benefits from its good access to core deposit funding because of the government guarantees on its obligations and its privileged access to deposits from public-sector entities that are obliged to place most of their liquidity in public-sector banks.

As of June 2024, deposits made up approximately 81% of the bank's total assets. BNCR remains the largest deposit taker in Costa Rica, holding a market share of 29% as of June 2024. The bank's loan-to-deposit (LTD) ratio decreased to 76% as of June 2024, down from 79% a year earlier, due to deposits growing at twice the rate of the loan book year-over-year as of June 2024.

Market funds accounted for 6.0% of tangible banking assets in June 2024, down from 9.3% a year earlier, primarily due to a reduction in loans to other financial institutions. BNCR's liquid assets remained robust, making up 35% of tangible banking assets in June 2024, consistent with the average from 2019 to 2023 and aligned with moderate credit growth rates. The bank's liquidity is predominantly held in the form of cash, bank deposits, and government securities.

Costa Rica's operating environment for banks, measured by its Moderate- Macro Profile

Costa Rica's macro profile of Moderate- reflects the country's strong growth potential, diversified economic base and comparatively high wealth levels that underpin high economic resiliency. The strong governance effectiveness, rule of law and control of corruption with respect to peer countries favor a robust legal and regulatory framework for financial institutions in the country. Costa Rica's strengths are counterbalanced by a high susceptibility to event risk, reflecting high gross funding needs and the government's historically low liquidity buffers.

The level of credit intermediation in Costa Rica stood at 53% of GDP with moderate credit at 5.5% as of June 2024. Asset risks stem from a high level of loan dollarization with a loan-to-deposit in foreign-currency at around 80%. At this level below 100%, risks of contingent claims on reserves in case of sizable withdrawals of dollar deposits are diminished. Overall funding is largely stable and primarily structured on core deposits. The banking systems is highly concentrated with two state-owned banks accounting for 42% of market share in terms of loans, thanks to an explicit sovereign guarantee on their liabilities that provides significant advantage relative to their private sector competitors in terms of attracting retail deposits and generating new business.

ESG considerations

Banco Nacional de Costa Rica's ESG credit impact score is CIS-2

Exhibit 3
ESG credit impact score

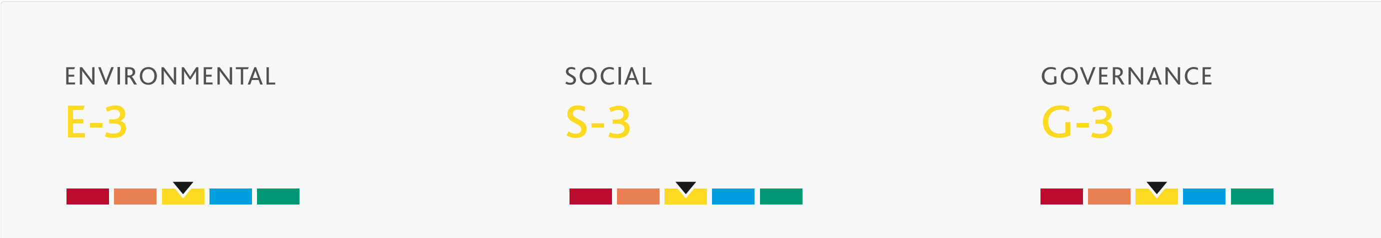
CIS-2

ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Banco de Nacional Costa Rica's (BNCR) **CIS-2** indicates that ESG considerations are not material to the rating, reflecting the high level of government support that mitigates the impact of environmental, social and governance risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

BNCR exposure to environmental risk is moderate, stemming primarily from its portfolio exposure to physical climate risk, such as droughts, rising sea levels and increased storm severity which can harm the agricultural and tourism sectors. Costa Rica's economic adaptation and efforts to climate change partly mitigates the bank's exposure to carbon transition risks.

Social

BNCR faces moderate social risks related to customer relations. The bank's developed policies and procedures, mitigate risk associated with the distribution of financial products such as conduct, regulatory and reputational risks, as well as exposure to litigation; BNCR has activities primarily in Costa Rica, a country which has imposed only moderate penalties in relation to consumer protection. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks.

Governance

BNCR's governance risks are moderate, weighed down by the corporate governance risks mainly stemming from its government ownership. The latter may give rise to directed lending, entering non-arms-length deals under the government's directives and taking politically and socially motivated decisions that could impair the bank's financial profile. However, the bank's strategy, risk management function and organizational structure are in line with industry practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Government support

BNCR's Ba3 local-currency deposit and foreign-currency debt ratings incorporate our assumption of full support from the government, given the government's 100% ownership of BNCR, the state guarantee on the bank's senior obligations under Article 4 of the Banking Law, the bank's public policy mandate, and the importance of BNCR's deposit and loan franchise within the Costa Rican financial system.

Counterparty Risk Ratings (CRRs)

BNCR's CRRs are Ba2/NP

The CRRs, before government support, are positioned one notch above the Adjusted BCA of ba3 and, therefore, above deposit ratings, reflecting our view that CRR liabilities have a lower probability of default than the bank's deposits because they will more likely be preserved to minimize banking system contagion, minimize losses and avoid disruption of critical functions.

The CRRs also incorporate our assumption of full government support, in line with our support assumptions on deposits.

Counterparty Risk (CR) Assessments

BNCR's CR Assessment is Ba2(cr)/NP(cr)

The CR Assessment, before government support, is positioned one notch above the Adjusted BCA of ba3 and, therefore, above the deposit ratings, reflecting our view that its probability of default is lower than that of deposits. We believe senior obligations represented by the CR Assessment will be more likely preserved to limit contagion, minimize losses and avoid disruption of critical functions.

The CR Assessment also incorporates our assumption of full government support, in line with our support assumptions on deposits. This reflects our view that any support provided by government authorities to a bank that benefits deposits is very likely to benefit operating activities and obligations reflected by the CR Assessment as well, consistent with our belief that governments are likely to maintain such operations as a going concern to reduce contagion and preserve a bank's critical functions.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard 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 methodology and scorecard factors

Exhibit 5
Rating Factors

Macro Factors							
Weighted Macro Profile	**Moderate -**	**100%**					
Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	2.5%	baa3	↔	ba1			
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel I)	-	-	-	b1			
Profitability							
Net Income / Tangible Assets	0.4%	b1	↔	b2			
Combined Solvency Score		ba2		ba3			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	6.8%	baa2	↔	ba1			
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	34.2%	baa3	↔	ba1			
Combined Liquidity Score		baa2		ba1			
Financial Profile				ba2			
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint				-			
BCA Scorecard-indicated Outcome - Range				ba2 - b1			
Assigned BCA				ba3			
Affiliate Support notching				0			
Adjusted BCA				ba3			

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	ba2	-	Ba2	Ba2
Counterparty Risk Assessment	1	0	ba2 (cr)	-	Ba2(cr)	
Deposits	0	0	ba3	-	Ba3	Ba3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
BANCO NACIONAL DE COSTA RICA	
Outlook	Positive
Counterparty Risk Rating	Ba2/NP
Bank Deposits	Ba3/NP
Baseline Credit Assessment	ba3
Adjusted Baseline Credit Assessment	ba3
Counterparty Risk Assessment	Ba2(cr)/NP(cr)

Source: Moody's Ratings

REPORT NUMBER 1423779

Contacts

Susana Almeida +52.55.1253.5734
Analyst
susana.almeida@moodys.com

Ceres Lisboa +55.11.3043.7317
Associate Managing Director
ceres.lisboa@moodys.com

Luis Fernando Baza +52.55.1253.5735
Lead Ratings Associate
luis.baza@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454