

RESEARCH

Research Update:

BAC International Bank Inc., Credomatic International Corp. Upgraded To 'BBB/A-2'

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Primary Credit Analyst: Leonardo Bravo, Mexico City (52)55-5081-4406;
leonardo_bravo@standardandpoors.com
Secondary Credit Analyst: Laurence Wattraint, Mexico City (52) 55-5081-4478;
laurence_wattraint@standardandpoors.com

Rationale

On Dec. 21, 2006, Standard & Poor's Ratings Services raised its counterparty credit and CD ratings on BAC International Bank Inc. (BIB) and on BIB's subsidiary, Credomatic International Corp. (CIC), to 'BBB/A-2' from 'BBB-/A-3'. The rating outlook is stable for both institutions.

The upgrade reflects our reassessment of the strategic importance of BIB to its 49.99% owner, General Electric Capital Corp. (GECC; AAA/Stable/A-1+), as a result of which we are now imputing a limited degree of financial support from GECC to BIB, in the unlikely event this is required.

The strategic importance of BIB to GECC is reflected in the close involvement of GECC in BIB's operations, since GECC made its initial investment in May 2005. This includes implementation of GECC operating practices, such as GECC's six sigma program, credit risk systems, compliance, collection, and treasury management procedures.

Under its ownership agreement, GECC has five out of 11 members of the Board of Directors and an active participation in management as it participates in credit, assets and liabilities, compliance, and audit committees.

There could be an increase of GECC's ownership in the medium term.

The ratings assigned to BIB are based on those on CIC, which is its main subsidiary, representing most of its assets, loan portfolio, and profits. BIB is a bank incorporated in Panama with two principal wholly owned subsidiaries, BAC International Bank (Grand Cayman) and CIC. BIB is 100% owned by a holding company (BAC International Corp.), which itself is ultimately owned by a group of more than 500 stockholders who own 50.01%, and GECC, which has a 49.99% stake in the bank.

Through its subsidiaries, BIB maintains bank and other financial services subsidiaries in six Central American countries, of which the most relevant operations are in Costa Rica, El Salvador, and Panama. On a consolidated basis, BIB is the fifth-largest financial group in Central America, with \$3.9 billion in assets as of September 2006, and is the most profitable of the banks rated by Standard & Poor's in Central America. The Panamanian superintendent is the ultimate supervisor of the consolidated BAC Credomatic group, and on an individual basis, the operations are subject to regulation and supervision in each country. Even though in most countries, with the exceptions of Costa Rica and Nicaragua, BIB and its subsidiaries do not hold as dominant a market share in banking activity as in the credit card business, the BAC Credomatic name is well recognized, allowing it to increase business and cross selling.

BIB's Panamanian loan book of about \$482 million has been reoriented to follow CIC's strategy of offering traditional banking services and promoting the credit card operations. The quality of the business has improved and follows the policies and standards of the BAC Credomatic group. BIB on a consolidated basis has shown a healthy financial condition with consistent growth rates and an adequately managed loan portfolio, with nonperforming assets representing 1% of total loans and 2.4x of coverage as of September 2006. In addition, profitability is better than the average for Latin American banks, exhibiting a high 3.6% average ROA in the past four years. On a consolidated basis, BIB's good performance is expected to continue, as prudent

management continues, and the business mix will provide the bank with recurrent interest income and fees to maintain profitability.

Although BIB is a regional financial institution, it operates in countries where the economies are small with little economic diversification, and all of them are noninvestment grade. Risks on the lending side include the important commercial exposure to Costa Rican companies, and of particular concern is the important exposure to dollar-denominated loans that are granted to nongenerators of foreign currency, mainly in Costa Rica. BIB is challenged to maintain a prudent business approach and to continue diversifying by line of business, by industry, and by country. In our view, BIB should be able to manage modest growth prospects for the region and maintain conservative policies to reduce the risks inherent in its core retail orientation. Nevertheless, severe regional cool down or turmoil could affect asset quality and profitability.

Outlook

The outlook is stable. The outlook assigned to BIB is not constrained by the outlook assigned to the sovereign ratings on Panama, but is tied to the outlook assigned to the ratings on CIC. BIB and the BAC Credomatic group are expected to continue operating under prudent guidelines while enhancing the banking business in each of their markets. Barring any major regional disorder that could result in asset quality and profitability deterioration, the ratings are expected to remain at current levels. As ratings assigned to BIB are based on those on CIC, any change to the CIC ratings will affect the BIB ratings. If the bank is unable to maintain its adequate financial profile, and asset quality, profitability, or capitalization deteriorate, the ratings could be pressured.

Ratings List

Upgraded

	To	From
BAC International Bank Inc.		
Counterparty Credit Rating	BBB/Stable/A-2	BBB-/Stable/A-3
Certificate Of Deposit	BBB/A-2	BBB-
Credomatic International Corp.		
Counterparty Credit Rating	BBB/Stable/A-2	BBB-/Stable/A-3
Certificate Of Deposit	BBB	BBB-

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

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