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## BAC International Bank Inc. Ratings Removed From CreditWatch, Affirmed; Outlook Stable

Primary Credit Analyst(s): Leonardo Bravo, Mexico City (52)55-5081-4406; leonardo\_bravo@standardandpoors.com  
Secondary Credit Analyst(s): Angelica Bala, Mexico City (52) 55-5081-4405; angelica\_bala@standardandpoors.com

[Rationale](#)

[Outlook](#)

[Ratings List](#)

**Credit Rating:** BBB-/Stable/A-3

### Rationale

On Sept. 21, 2005, Standard & Poor's Ratings Services removed its 'BBB-/A-3' counterparty credit ratings on BAC International Bank Inc. (BIB) and Credomatic International Corp. (CIC) from CreditWatch, where they were placed with positive implications on May 12, 2005. The ratings were affirmed, and the outlook is stable.

The rating affirmation follows our review of General Electric Capital Corp.'s (GE Capital; AAA/Stable/A-1+) investment in a 49.99% stake of BIB, announced in May 2005. We have reviewed the conditions of the announced transaction and analyzed the tangible and future effects of this investment on the companies' operational and financial profiles.

We believe that although improvements in corporate governance and processes and procedures are expected from GE Capital's future involvement, rating fundamentals for BIB and CIC remain unchanged. We do not expect GE Capital to provide explicit support to the repayment of BIB and CIC's obligations given its still minority shareholder position and relative strategic fit in GE Capital's global investment portfolio. The ratings were affirmed based on the company's important regional presence, diversified loan portfolio, good financial profile, and increasing market recognition of the BAC Credomatic brand in Central America. The ratings are balanced by the higher risks associated with the credit card business and consumer loans. Although the company's operations spread throughout the Central American region, the countries covered by Credomatic are relatively small, nondiversified economies with low per-capita income.

BIB remains the leading credit card issuer and merchant voucher acquirer in the region through CIC, which remains its core competitive advantage. Although BIB's operations through its subsidiaries are diversified in more than six countries, particular concentrations are present in Costa Rica and El Salvador that together represent 53% of the total loan portfolio. The company has built good market recognition and franchise value in Central America under a strong retail banking approach. CIC's profitability has been consistently high, with ROAs of more than 4% in recent years. The loan portfolio has performed adequately as nonperforming asset ratios are below 2.5% as of June 2005.

BIB and CIC are Central American regional banks, and operate in countries where economies are small with little diversification and with low per-capita income, all of which are noninvestment grade. A severe regional downturn or turmoil could affect asset quality and profitability. In addition, BIB and CIC have an important participation in higher-risk loans associated with the credit

card business and consumer loans.

### **Outlook**

The stable outlook reflects our opinion that the bank's strategies and adequate operations should maintain profitability and asset quality at good levels in a stable economic environment. Credomatic is expected to continue operating under prudent guidelines while enhancing its banking business in each of the markets in which it operates. Barring any major regional disorder that could result in asset quality and profitability deterioration, the ratings are expected to remain at current levels. The ratings could be raised if there is an explicit form of financial support from GE Capital. If the bank is unable to maintain its adequate financial profile, and asset quality, profitability, or capitalization deteriorate, the ratings could be pressured.

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