

September 23, 2008

Research Update:

**BAC International Bank Inc.
Counterparty Credit Ratings
Affirmed At 'BBB/A-2'; Outlook
Stable**

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Table Of Contents

Rationale

Outlook

Ratings List

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Rationale

On Sept 23, 2008, Standard & Poor's Ratings Services affirmed its 'BBB/A-2' counterparty credit ratings on BAC International Bank Inc. (BIB). The outlook is stable.

The ratings affirmation reflects the group's adequate liquidity policies, geographic diversification in Central America, capable management team, ongoing highly profitable business, and sound risk management. The ratings on BIB are also based on those on Credomatic International Corp. (CIC; BBB/Stable/A-2), its main subsidiary. CIC accounts for most of BIB's assets, loan portfolio, and profits. BIB is incorporated in Panama, with two main wholly owned subsidiaries, BAC International Bank (Grand Cayman) and CIC. General Electric Capital Corp. (GECC; AAA/Stable/A-1+) owns a 49.99% stake in BIB. The ratings consider a limited degree of financial support from GECC and our assessment of BIB's strategic importance to GECC. GECC's footprint is evident in BIB's implementation of a new credit process and new risk management practices, and the sharp organic and inorganic growth that have allowed it to diversify its portfolio within Central America.

BIB is the fourth-largest financial group in Central America, with \$7 billion in assets as of June 2008. The Panamanian superintendent is the ultimate supervisor of the consolidated BAC Credomatic Group. The banking operations are subject to regulation and supervision in each country on an individual basis. Good credit risk management grounded in deep knowledge of the region sustains creditworthiness, resulting in low credit losses traditionally and a stock of nonperforming assets (NPAs) that is low within the region. NPAs have been 2%, and BIB's coverage ratio has been more than 1.x, over the past three years. We believe that potential credit risks remain, however, because of rapid growth in lending in a less positive economy.

Liquidity management is adequate, with several funding sources, mainly deposits, representing 72% of liabilities. However, growth came more slowly for deposits than for assets. Deposits grew 22% to June 2008 from June 2007, and assets rose by 36% over the same period, resulting in a loan-to-deposit ratio of 1.1x in June 2008. Still, in our opinion, BIB has prudent liquidity policies; regulatory liquidity requirements are high in the region where it operates. Overall profitability is strong, with a return on assets of more than 3.2% in the past three years. This outstanding profitability in the region results from a rewarding portfolio mix oriented toward consumer loans; tight control of expenses; an improving efficiency level since 2005, reaching 52% at June 2008; and steady asset quality, benefiting from an ample franchise across Central America. We believe compression of spreads and higher funding costs could pressure profitability.

Of particular concern is the important exposure to dollar-denominated loans granted to lenders, mainly in Costa Rica, that do not generate foreign currency. This risk is partially mitigated by stress-test measures and revised credit policies. The change in foreign-exchange policies in Costa Rica as it drives toward a free-exchange regime challenges BIB's credit policies. Capitalization ratios have been pressured, with the June 2008 adjusted total equity-to-assets ratio declining to 8.74% from a historical 11% prior to 2007. Rapid loan growth expansion, mainly through acquisitions, is principally responsible. Nevertheless, we expect BIB's adjusted capitalization ratio to improve back to historical levels on a probable slowdown in asset growth and an increasing capital base with retained earnings.

Outlook

The stable outlook on BIB is not constrained by the outlook assigned to the Republic of Panama (BB+/Stable/B), but it is tied to the outlook assigned to the ratings on CIC. We expect that BIB and the BAC Credomatic Group will maintain an overall good financial profile, given their conservative risk policies and slower pace of asset expansion. We will look for good asset quality and sound capital to be preserved. Whenever a downturn in the economy of the region hurts the asset quality, liquidity, or profitability of BAC Credomatic Group, could have negative rating implications. Because the ratings assigned to BIB are based on those of CIC, any change to the ratings on CIC will affect those on BIB.

Ratings List

Ratings Affirmed

BAC International Bank Inc.
Credomatic International Corp.

Counterparty Credit Rating	BBB/Stable/A-2
Certificate Of Deposit	BBB/A-2

BAC Bahamas Bank

Counterparty Credit Rating	
Foreign Currency	BB/Stable/B
Certificate Of Deposit	
Foreign Currency	BB/B

Banco BAC San Jose, S.A.

Counterparty Credit Rating	
Foreign Currency	BB/Stable/B
Local Currency	BB+/Stable/B
Certificate Of Deposit	
Foreign Currency	BB/B
Local Currency	BB+/B

Credomatic International Corp.
Certificate Of Deposit

BBB/A-2

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