

**Banks  
Peru  
Credit Analysis**

**Banco de Crédito del Perú  
BCP**

**Ratings**

	Current Rating
<b>Banco de Credito del Peru</b>	
Foreign Currency	
Long-Term IDR	BBB-
Short-Term IDR	F3
<b>Local Currency</b>	
Long-Term IDR	BBB-
Short-Term IDR	F3
<b>National</b>	
Long-Term IDR	
Short-Term IDR	
Individual Support	C/D 3
Support floor	BB-
<b>Sovereign Risk</b>	
Foreign Long-Term IDR	BB+
Local Long-Term IDR	BBB-
Country ceiling	BBB-

**Outlook**

BCP IDR/Individual	Stable/Stable
Sovereign IDR	Positive

**Financial Data**

BCP	9/30/07	21/31/06
Total Assets (USDm)	12,881	10,550
Total Assets (PENm)	40,318	33,713
Equity (PENm)	3,042	2,860
Net Income (PENm)	718	662
ROA (%)	2.58	2.03
ROE (%)	32.4	23.4
Equity/Assets (%)	7.53	8.49

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**Rating Rationale**

- Banco de Crédito del Peru's (BCP) ratings reflect its dominant franchise, important market share across all business segments, diversified revenue, broad, low cost deposit base, diversified loan portfolio, improved asset quality and adequate reserve coverage. The ratings highlight BCP's systemic importance, improving efficiency, strong performance and the depth and breadth of its management. The individual and local currency IDR ratings are limited by BCP's lean capital base.
- Within a positive economic environment, BCP's loan portfolio grew rapidly providing increased interest revenues while largely recurring and well diversified non-interest revenues contribute over 35% of total revenues. Hence, BCP has a higher revenue diversification and improved ability to face pressure on margins. Costs increased as the bank expanded but should recede going forward; loan loss provisions increased reflecting the shift to retail banking but the overall result was higher net income and improved profitability. Results should decrease slightly going forward but ROE should remain in the low to mid 20%'s while ROA exceeds 2%.
- Rapid loan portfolio growth coupled with strong economic fundamentals, resulted in a clear improvement of asset quality that may have reached a peak but is likely to remain strong thanks to continuous growth, wide loan portfolio diversification and a cautious approach to new markets. Loan loss reserves were basically flat but coverage is adequate and improved as PDLs and restructured loans decreased.
- Funding is broadly based and has a relatively low cost; borrowed funds are increasingly important. Liquidity is adequate, albeit decreasing. Strong loan portfolio growth and a steady dividend payout ratio have put pressure on BCP's capital ratios. BIS regulatory capital ratio is 12.5% as of September 2007 but subordinated debt, eligible for regulatory capital, contains no equity credit under Fitch Ratings criteria and the adjusted ratio is about 11%. Plans for future capital growth call for the issuance of hybrid instruments that would bring the adjusted ratio above 12%.

**Support**

BCP's systemic importance in the Peruvian system, make it likely that authorities would provide support to the bank should it be required. However, the ability of the authorities to provide such support is considered moderate and constrained by the current sovereign rating of BB+.

**Key Rating Drivers**

- BCP's individual and IDR ratings would benefit if the bank achieves stable asset quality, sustained financial performance, and, most importantly, if the BIS capital ratio improves and is maintained above 12% (adjusted as per Fitch criteria). Downward pressure on BCP's individual and IDR ratings would arise if the bank is unable to sustain its performance or sees its capital weaken.

**Profile**

BCP is Peru's largest bank, with a dominating market share of over 35% of deposits. It is the principal operating company within Credicorp, Peru's largest financial services company, which controls 97.2% of BCP; Credicorp is widely held by local and foreign institutional shareholders.

- Largest private bank in the Peruvian banking system
- Active across all markets with a strong franchise and broad product offering

**Profile**

Established in 1889, BCP is Peru's oldest bank, and has long been its largest; BCP cemented its dominant position mainly through organic growth but also through acquisitions of other financial entities and selected assets including the Peruvian operations of Banco Santander, and the local assets of BankBoston. Boasting a market share of 38.8% and 31.5% of deposits and loans respectively at September 2007, it has a consistent leading position in Peru's concentrated financial system; its next largest competitor is roughly 60% of its size, while the three largest banks hold about 75% of the system's deposits. However, competition in the local market is fierce and new entrants (Azteca, Falabella, Santander, Deutsche Bank) should increase competitive pressure in all business segments. BCP operates as a universal bank active across all business segments and facing a different set of competitors in each one. It offers a broad array of financial products through the country's largest network of 255 branches and 725 ATMs; it also has branches in Panama and Miami. BCP consolidates several subsidiaries, of which the principal ones are: Banco de Credito de Bolivia, Bolivia's third largest bank; Credito Leasing; and Credifondos, Peru's leading asset-management company with a market share of over 45% of funds under management.

Historically, BCP was oriented towards the corporate market, based on a solid deposit base from its corporate and broad retail client base; as local capital markets developed and international markets became more accessible to BCP's corporate clients, margins in its traditional market narrowed and led BCP - and its principal competitors - to develop credit and service products for the underbanked retail and middle markets. Following Peru's strong GDP growth, consumer, mortgage, and middle market lending boomed in recent years; BCP's retail division now accounts for roughly 37% of the loan portfolio and over 50% of the bank's net income (see Strategy).

**BCP Subsidiaries**

(Figures in PEN m)

	Total Assets	Net Income	Total Equity
BCP	31,675.0	2,861.0	661.6
BCB	2,089.0	224.8	44.3
Credito Leasing	827.0	64.4	13.7
Inversiones BCP	82.4	82.4	8.4
Credifondo	55.0	49.7	13.0
Credititulos	30.5	29.5	12.0
Credibolsa	35.1	20.4	11.2
Solucion	32.0	14.5	0.5
Inmobiliaria BCP	8.2	8.1	(1.3)
Inversiones Conexas	5.6	5.5	2.8
BCP-SPE	4.6	4.6	3.9

Source: Company reports. At Dec/06

BCP is 97.24% owned by Credicorp, a holding company incorporated in Bermuda in 1995 as a vehicle for expansion into other financial services, principally in Peru; Credicorp is the country's largest provider of financial services, and is listed on the Lima and New York stock exchanges. BCP is Credicorp's principal holding; other holdings include Atlantic Security Holding Corporation (ASHC), incorporated in the Cayman Islands and principally serving Peruvian-based customers in trade finance, private banking and asset management, as well as proprietary investment and trading activities; Pacifico Peruano Suiza (PPS, rated IFS 'BBB-' by Fitch), Peru's second largest insurance company active across most insurance lines (33% market share at YE2006); Grupo Credito/Prima AFP allows Credicorp to enter the highly concentrated pension fund administration industry. BCP is undergoing a swift and uneventful senior management change as Mr. Walter Bayly (CFO, holding several Senior positions at BCP in the last 15 years) assumes the CEO position in April 2008; the resulting restructuring was largely anticipated and is not expected to disrupt BCP's growth or alter its business plans.

Credicorp is widely held; the Romero family, long the controllers of BCP, hold the largest stake, with 16% of common shares. Other shareholders holding over 5% of shares are ASHC (15.5%), AFP Integra (10%), AFP Horizonte (6.98%), AFP Prima (9.33%); the AFPs are Peruvian private pension funds. Management of Credicorp is in the hands of the executive team of BCP, whose Directors also sit on the broader Board of Directors of Credicorp. Credicorp's unconsolidated balance sheet shows no short term debt.

### Corporate Governance

BCP's corporate governance is set out in its Internal Guidelines and Annual Report on Corporate Governance and Social Responsibility. The board of directors can have from five to thirteen directors that are elected by the shareholders' assembly for repeatable three-year tenures. BCP's board currently has 13 Directors, including nine independent members (SEC/NYSE regulation requires that the majority of Credicorp's Directors be independent, the same structure was applied to BCP). The board of Directors has organized the following committees: Executive Committee (5 members, 3 independent), Remunerations Committee (4 members, 2 independent), Audit Committee (4 members, 2 independent) and Market risk Committee (7 members, 3 independent). External auditors are to be changed every five years. A SOX-mandated Compliance Officer, and the bank's Audit Division, report directly to the Board.

### Strategy

Moving forward, BCP's strategy is to maintain profitability and diversify its revenue sources by continuing shifting its balance sheet from a roughly 65% wholesale/ 35% retail mix in 2005 to a 50/50 mix in 2010; BCP's portfolio mix is roughly 63% wholesale/37% retail at September 2007; as a secondary effect, local currency assets and deposits (dominant in retail banking) have increased from about 20% of the balance sheet at June 2005 to about 30% of the balance sheet at September 2007. BCP aims to build retail bank (consumer/SME) assets and deposits while its wholesale bank (large corporate and middle market companies) should grow in line with Peru's GDP. Moreover, the bank will use its leading market share in mortgages and its broad reach across small and medium sized businesses to access lower income segments of the population, increase cross-sell and diversify revenues. Hence, BCP acquired a stake in Titulizadora Peruana (TP), a company created to develop the mortgage securitization market in Peru; TP plans to securitize over \$1bln over the next five years. Given the stable, growing economy and fierce competition from banks and developing capital markets, spreads in the wholesale bank are expected to fall while non-interest income becomes increasingly important in the wholesale bank. Growing retail bank revenues will help sustain margins and continue to be a strong generator of non-interest income. With projected loan growth averaging roughly 15% through 2009, BCP aims at maintaining ROE just below 25%, and a ROA around 2%. Given its broad domestic franchise generating a stable and low cost funding base, BCP appears well positioned to achieve its strategic goals if the operating environment in Peru remains relatively benign. Its challenge will be to maintain asset quality through the growth, especially important given its current relatively high level of leverage.

### Presentation of Accounts

This analysis is based on BCP's audited, consolidated year-end financial statements, as well as interim statements for the nine months to September 2007. The audited statements, prepared in accordance with Peruvian GAAP, received an unqualified opinion from Ernst & Young, who also audit the financial statements of Credicorp.

- Economic conditions remain favorable, internal demand and investments fuel growth
- BCP's performance driven by solid loan growth into higher margin segments
- Costs appear under control and efficiency improves in spite of higher provisions

## Performance

The operating environment for Peruvian banks has improved steadily over the last five years. Peru's economic performance has been driven by favorable global trends which underpinned rapidly growing exports. Investment increased its contribution to GDP, which combined with the favorable external environment has accelerated growth to an average of 6.3% for the five years ending in 2007. The economic expansion bolstered tax revenue, which combined with controlled government spending, led to fiscal surpluses in 2006 and 2007. Macroeconomic policy continuity has also served Peru well in recent years. A conservative fiscal policy - focused on improving tax administration, optimizing expenditure and reducing debt - as well as policies intended to foster private investment, should allow growth to continue as the government attempts to address poverty. While growth was regionally affected by the earthquake that devastated Pisco and Ica, the overall impact on economic growth was immaterial. As was the case in other emerging markets, inflation picked up in 2H07, mostly as a result of higher oil and food prices. However, strong domestic demand coupled with high utilization of installed capacity could also be contributing to underlying inflationary pressures. Going forward, a gradual cooling of export markets is expected but strong domestic demand, as well as the recently approved free-trade agreement with the US, should continue to fuel growth in excess of 6% through 2009. Peru's sovereign rating was upgraded to "BB+" in 2006 and has a Positive Outlook.

The positive economic backdrop benefited the highly concentrated banking system. After several years of asset quality deterioration and depressed results, banks' balance sheets began to grow again in 2004, and growth has been steady since, reaching 35% ytd at September 2007. Loan growth has been led by lending to the retail market - mortgage and consumer loans - and, to a lesser but growing degree, to SMEs. Accordingly, revenues and loan portfolios are better diversified; asset quality has shown steady improvement thanks to the strong economy and to the effect of loan growth on traditional asset quality indicators. Portfolio growth, in turn, has boosted returns, revenues have benefited from lending to higher margin segments and net loan loss provisions have fallen steadily thanks to asset recoveries. Going forward, we expect loan growth and the aging of growing retail and SME portfolios will push provisions higher, though the favorable local environment should allow continued strong results.

BCP's performance through September 2007 has been driven by a growing revenue trend based on loan portfolio growth and a strong contribution of non-interest income. Costs remain well under control after a peak in 2006 and are relatively lower when compared to assets and total revenues. Following strong growth and a relatively riskier portfolio mix, loan loss provisions have increased while recoveries are relatively lower; reserve coverage has improved and appears adequate, though reserves relative to total loans have fallen. Net income remained fairly flat in 2006 but has improved significantly in the nine months to September 2007.

## Operating Revenues

BCP's operating revenues have grown steadily since December 2004, growing 8% in 2006 and 21% yoy at September 2007. Net interest income increased 13% in 2006 and 25% yoy at September 2007, driven by loan growth (+23% ytd at September 2007) and improved margins that reflect the continuing shift to retail lending. In fact, retail banking yields a 9% net interest margin while middle market lending yields 3% and corporate banking 1.9%; among retail segments, credit cards (21% margin) and SME (15%) are the top contributors. Other operating income, largely recurring fee revenues, provides diversification to revenues but did not grow as fast as loans and interest revenues, improving slightly in 2006 (+2%) but exceeding a 20% yoy growth at September 2007.

**Peruvian Banks, Financial Highlights**

	BCP			Continental			Scotiabank			Interbank			System Average		
	9/07	12/06	12/05	9/07	12/06	12/05	9/07	12/06	12/05	9/07	12/06	12/05	9/07	12/06	12/05
Assets (PENm)	37,985	31,891	29,226	22,465	18,594	18,263	15,336	13,508	2,459	9,110	7,422	6,275	98,391	82,553	78,188
Equity (PENm)	3,042	2,861	2,791	1,815	1,711	1,504	1,586	1,284	193	764	669	562	8,895	7,875	7,217
Net Income (PENm)	718	662	692	421	488	402	336	262	19	168	161	113	1,832	1,716	1,483
Net Investments (PENm)	8,478	6,145	5,782	2,606	1,977	3,604	2,411	2,039	203	1,421	1,235	342	15,986	12,240	12,424
Net Loans (PENm)	20,468	16,291	14,186	15,114	12,341	9,048	8,762	7,243	1,699	5,279	4,110	3,845	58,750	47,466	40,806
Deposits (PENm)	25,920	22,610	19,380	15,676	13,653	14,288	11,457	10,455	1,615	6,773	5,724	4,533	67,739	59,290	54,560
Subordinated Debt (PENm)	710	712	334	221	0	0	291	320	70	137	159	165	1,386	1,228	903
PDLs/Gross Loans (%)	0.80	1.09	1.54	1.14	1.10	1.41	2.38	2.38	2.55	1.39	1.92	2.86	1.51	1.63	2.14
Restructured Loans/Gross Loans (%)	1.05	1.86	3.21	0.87	1.11	1.95	3.71	5.43	4.95	2.41	4.89	7.02	1.58	2.45	4.13
Loan Loss Reserves /PDLs (%)	313	274	267	291	311	327	266	286	202	268	235	176	250	251	235
Non-interest Expense/Margin (%)	41	48	47	36	39	40	50	56	61	52	53	56	46	51	52
ROAE (%)	30.9	25.0	27.8	33.5	32.1	29.7	31.3	23.8	10.6	33.5	27.3	22.1	28.5	23.9	22.2
ROAA (%)	2.56	2.23	2.82	2.82	2.73	2.60	3.06	2.04	0.84	2.81	2.35	1.92	2.61	2.18	2.18
Local Currency Liquidity (%)	50.1	56.9	45.2	31.3	33.9	50.5	52.1	51.1	33.7	31.8	30.5	22.8	40.6	43.1	38.6
Foreign Currency Liquidity (%)	45.8	52.0	57.8	39.2	37.8	53.5	38.1	44.1	25.6	38.5	51.6	43.9	40.7	45.0	49.2
Regulatory BIS Ratio (%) <sup>a</sup>	11.7	11.8	11.0	11.2	11.3	12.0	11.8	15.1	12.1	11.2	11.8	12.1	11.9	12.5	12.0

<sup>a</sup>BIS ratio as of Aug/07.  
Source: SBS. Unconsolidated.

With non-interest income consistently providing roughly 35%-40% of revenues over the last four years, BCP's revenue stream is somewhat insulated from potential margin pressure going forward. The bank's margin has been steady and even increased in 2007 in spite of increased competition in a very liquid local market thanks, largely, to an increase in higher margin retail lending, and the consistent benefit of its low cost funding base.

Non-interest income is well diversified, with fees accounting for more than 80%, and the balance generated principally by recurring f/x spot sales. Fees have significant contributions from account services, credit card commissions, asset management fees, corporate finance advisory, fund management and securities brokerage. All things included, retail banking contributes about 70% of net interest income and 65% of non-interest revenues. After a record-setting year, growth in the (retail) loan portfolio should remain strong - albeit at a lower pace - and continue supporting net interest revenues while non-interest revenues maintain their contribution.

**Non-Interest Expenses**

Personnel expenses increased 29% in 2006 mainly due to the cost of stock options granted to BCP's executives and, to personnel increase in line with its important asset growth. By the same token, general and administrative expenses increased 22% while other non-interest expenses remained fairly flat (-3%); the trend improves in 2007 as personnel expenses decrease thanks to a hedge of stock options cost and other non-interest expenses are almost unchanged.

Overall efficiency shows a positive trend as costs have significantly decreased from 64% of revenues to 57% between December 2004 and December 2006; the efficiency ratio for September 2007 is 44% but - as some costs are seasonal - the year-end result should be around 50%, making BCP the second most efficient top Peruvian bank after Continental. Going forward, general and administrative expenses should increase about 30% in 2008 to expand the bank's network according to its business strategy; hence, efficiency should decline in 2008 and resume the positive trend in 2009.

### Loan Loss and Other Provisions

Loan loss provisions showed a decreasing trend until 2005 reflecting the decreasing burden of the deteriorated portfolio that resulted from the 2001 crisis. In 2006, loan loss provisions increased to PEN148m (+54%) to cover the increased risk brought about by the growing retail portfolio; the trend continues in 2007, as BCP provisioned PEN136m in the nine months to September. Historically, provisions have consumed between 12% and 18% of profits before provisions and taxes. After bottoming in 2005 at about 10%, the ratio is back to 14% in 2006 and should remain at that level in 2007 (13% at September), then gradually increase to the top of the range. Increased loan volume and relatively stable margins should provide the revenue cushion to absorb this increase.

### Prospects

Results into 2008 should continue strong, driven by broad and diversified revenue growth based on balance sheet expansion - led by retail banking - and the continued growth of local commercial and investment activity. Provisions should continue rising as the loan mix shift continues, but margins appear steady and volume growth should mean that such an increase can be absorbed maintaining a reasonably strong profitability. Planned issuance of perpetual debt with high equity content and increased earnings retention should provide the capital base to support balance sheet growth.

- Asset quality improves while credit expands and diversifies
- Loan portfolio to grow mainly in retail banking
- Dollarization risk as well as market and operational risks are better controlled

### Risks

BCP's principal risk is the credit risk inherent in its loan and securities portfolios. It also faces market risk in a highly dollarized economy, as well as liquidity and operational risks. The risk management function resides in three areas: the Credit division oversees exposure to commercial credits, and reports directly to the Corporate Bank Head; credit risk to individuals is the responsibility of the Risk area of the Retail bank, reporting to the Retail Bank Head; the Risk Administration area reports to the CEO, overseeing operational and market risks, as well as the overall management of risk across business lines. In Fitch Ratings' opinion, BCP's risk management function could benefit from a fully independent and centrally integrated risk management function reporting directly to the CEO.

### Credit Risk

The Board of Directors is responsible for approving broad risk policies and limits, and for approval of credit exposures over \$60m. The Executive Committee of the Board of Directors, comprised of the CEO and 4 other members - three of which are Independent Directors - approves exposures between \$30m and \$60m, and exposures up to \$30m are approved at the Credit Committee, overseen by the CEO or the head of the Credit Division, and comprised by the heads of the various business lines. Corporate credits are proposed by the line unit, with credit packages prepared in conjunction with sector analysts within the Credit Division. Internal risk ratings, which follow the ratings required by the bank regulator and drive the allocation of loan loss reserves, are assigned initially by the account officers, and reviewed periodically by the Credit division.

BCP's loan portfolio is gradually shifting to retail; at September 2007, it is about 63% corporate lending (corporate and middle market) and 37% retail (the mix was 65% corporate, 35% retail at December 2005). Credits granted to individuals in the Retail Bank account for 70% of the total - the rest being lent to small and micro businesses - and are largely concentrated in mortgages (roughly 43% of the retail portfolio) and unsecured consumer loans (15%) and credit cards (12%). Mortgages are limited to a maximum of 80% of the independently appraised value of the collateral, with debt service limited to up to 35% of verified income levels (25% if the loan is in dollars);

average loan to values in the mortgage portfolio are well below the maximum (67% at September 2007). Individual lending is concentrated among the higher income segments of the population but the bank plans to expand its target market into lower income segments through direct payroll debit lending and, once they establish behavioral databases and scoring models, expand the product offering.

Loan growth has been steady since 2004 with total loans up 26% in 2005, 13% in 2006 and, accelerating to 32% yoy at September 2007. While the Retail bank saw its portfolio grow 30% in the nine months to September 2007, a slightly lower growth in the corporate portfolio led to only minor changes in the distribution of the loan portfolio. Management expects rapid growth to continue until 2Q08 fueled by strong economic growth in all segments; lending growth should slow down afterward. Mortgage lending should continue growing steadily at a rate of about 20% while consumer loan growth should be tamed. All things considered, retail lending should outpace corporate lending growth.

### Loan Portfolio

(%)	Sep-07	Dec-06	Dec-05
Corporate	37.5	38.5	40.9
Middle Market	25.3	25.0	24.9
Retail Bank	37.2	36.5	34.2
SME	11.3	10.8	9.5
Mortgage	15.9	17.2	17.3
Consumer	5.5	4.3	3.8
Credit Card	4.5	4.2	3.7

Source: Bank reports. Excludes BCB.

In order to prevent industry concentration, BCP limits exposure to any economic sector to 15% of the total exposure. The largest exposure at September 2007 was to consumer loans (22% up 1%), followed by wholesalers (8% up 0.7%), construction (6% up 1%) and, financial services (5.9% unchanged); no other sector comprised more than 5% of credit exposure. The portfolio shows some obligor concentration, not uncommon in relatively small economies. At September 2007, the largest 20 exposures equal 18% of total loans and contingencies (stable for the last three years) and 167% of equity (up from 141% at June 2006). Among the large exposures, all but three are classified in the best risk category, the exceptions are in the second and third best categories and have adequate provisions. Related party lending, defined as lending to shareholders with more than 4% of equity, the companies they control, and to employees, was modest and well diversified, equal to 4.1% of loans and contingencies; slightly more than 38% of equity at September 2007, including a large portion (78% of the total) to related financial services subsidiaries (55%) or affiliates (23%).

Reflecting the high degree of dollarization of the Peruvian economy, BCP has 71% of its loan portfolio denominated in dollars at September 2007 (the figure was nearly 80% at December 2005). Even though the bulk of this portfolio is lent to export-oriented companies that generate a dollar cash-flow (e.g. trade finance of corporate customers), it is estimated that about 21% of BCP's total portfolio is granted to customers that may be impacted by a devaluation hence adding to their credit risk. BCP has been gradually reducing its dollar portfolio and expects to have no more than 65% of dollar denominated assets by 2008. Moreover, the SBS has been proactive requiring banks to estimate this risk and the impact a devaluation of 20% and 40% could have on the loan portfolio's expected losses and the capital requirements. In practical terms, Peruvian banks have been required to increase provisions for this portfolio that is estimated to have decreased from about 30% at June 2004 to about 21% at July 2006.

### Loan Loss Experience and Reserves

Asset quality at BCP has been improving steadily; this is illustrated by the level of past due loans ("Impaired" in the spreadsheet) and that of restructured loans that have fallen both in absolute and relative terms. The sustained growth in the local economy and loan

growth contributed to a sharp decrease of past due loans from 3.7% of gross loans at December 2004 to 0.9% at September 2007; by the same token, restructured loans decreased from 5.9% of gross loans to 1.25% in the same period.

Reserves covered 304% of past-due loans at September 2007 up from 209% at December 2005 and 251% at December 2006; the more stringent ratio of reserves to past-due and

### Portfolio Quality

(%)

	Sep-07	Dec-06	Dec-05	Dec-04
A: Normal	92.47	90.16	85.83	80.56
B: Pot.Prob.	4.63	5.77	8.10	7.86
C: Substandard	0.97	1.06	1.69	4.58
D: Doubtful	1.29	2.04	2.96	4.21
E: Loss	0.65	0.97	1.43	2.80
C-E/Total Loans	2.90	4.07	6.08	11.58

Source: Bank reports.

restructured loans improved to 126% up from 95% at December 2006 and 73% at December 2005. Fitch considers these levels of coverage adequate, given the level of historic losses. Expectations of continued growth should further reduce restructured loans in absolute terms, although past due loans relative to the portfolio may rise as the loan mix continues to trend towards more retail and SME lending; margins in these segments should remain strong

enough to absorb additional provisioning levels.

### Other Earning Assets

The securities portfolio (21.6% of total assets at September 2007) and deposits with banks (17%) constitute the bulk of other earning assets. Short term local currency instruments issued by the Central bank are the main investment exposure (69% at September 2007) and have greatly increased since 2004 as BCP assumed a market maker role in the local money market. A diversified mix of sovereign, multilateral and private sector securities make up the rest of the investments. Most investments are fixed rate instruments; holdings of equity investments, all on the local stock exchange, were a modest 0.6% of the securities portfolio at September 2007, and cannot exceed 15% of equity by regulation. Exposure to Peru's Sovereign risk is a little over two times the bank's equity; however, over 80% of such exposure is in highly liquid short-term local currency CDs. Historically, in the past few years, over 98% of the portfolio is classified as trading or available for sale; the trading portfolio is marked to market daily, with the available for sale portfolio carried at the lower of book or market value.

### Market Risk

BCP's primary market risk is interest rate risk; it also faces foreign exchange and liquidity risks. Decisions affecting management of these risks are made by the Market Risk committee, which is comprised of the five members of the Board's Executive Committee joined by the general manager and the head of the Market Risk Unit, and meets monthly. An ALCO committee meets weekly, while tactical day-to-day decisions are made by the Investment Committee.

BCP uses various tools to measure, control and monitor market risk, including an internal VAR model, sensitivity limits, and stop loss limits. VAR is calculated at a 99% confidence level for a one-day holding period, and using a historical data base of two years; limits appear conservative. Average VAR was \$1.1m during 3Q07, with peak VAR at a modest \$1.4m in 3Q07. Tenor mismatches between assets and liabilities are common to the region, given largely short-term deposit bases; as medium term lending peaked up, the loan portfolio tenor profile shifted to higher maturities but deposits and other borrowings followed the same trend. At September 2007, about 37% of BCPs assets and 42% of its liabilities mature over 1 year; the gaps are managed so that a 100bp move in interest rates does not result in a gain or loss of more than 1% of net worth.

BCP's liquidity remains ample, albeit gradually decreasing. Given that it competes principally with banks held by strong foreign shareholders, BCP maintains internal minimum liquidity requirements well in excess of regulatory minimums; house limits call for maintaining dollar liquid assets of at least 40% of short-term dollar liabilities (regulatory limit: 20%), and PEN liquid assets of at least 20% of short-term PEN assets (regulatory limit of 8%). Dollar liquid assets are principally in the form of overnight deposits at strongly rated banks, while local currency assets are in the form of deposits at and notes issued by the Central Bank.

### Basel II/Operational Risk

BCP has an Operational Risk committee in place since April 2003; the bank implemented a self assessment process (RCSA) as the first step in putting in place a structure to measure and control operational risk. The RCSA process is also being implemented in some key subsidiaries of Credicorp and has served to comply with section 404 of the SOX law. The focus during 2007–2008 is on completing and implementing a Business Continuity plan; the core processing center will be upgraded in 2008 while an alternate processing center (that will share primary processing in the future) is being set up; a third processing center outside of Lima will be completed until 2010; the total investment is estimated at \$60m. BCP's operational risk event data base is still under development; the bank will most likely use the Alternative Standardized Approach and has initially estimated the additional capital requirement at 4.1% of current equity; the analysis is being completed and refined - in close coordination with the regulators - but no firm date has yet been set for implementation of Basel II guidelines.

- BCP enjoys a large and low cost funding base
- Growth is pressuring capital ratios, BCP plans to issue hybrids to sustain capital

## Funding and Capital

### Funding

Thanks to its dominating market share and widespread presence, BCP's deposit base is one of its principal strengths and its principal funding source, with low cost demand and savings accounts representing a significant portion of the funding base. This position has historically meant that BCP has benefited from flight to quality in times of stress in the local economy. Core deposits (sight, savings and unemployment insurance deposits) have consistently made up in excess of 50% of total funding, with time deposits, largely institutional, accounting for 30%–35% of the funding. Though deposits are generated from both the retail and wholesale banks, they are slightly less well diversified as the largest 20 deposits account for 10.9% of total liabilities at September 2007 (versus 9% at June 2006). Borrowed funds, principally from banks and from debt issues at home and abroad, represented a growing portion of the bank's liabilities, and, with the strength of its deposit base, will likely continue to represent less than 25% of non-equity liabilities.

### Capital

Strong balance sheet growth and still high dividend payouts to Credicorp have created pressure on BCP's capitalization ratios. BCP has historically reported higher leverage than its local peers and its capitalization ratios are at the low end of regional banks in similarly rated economies. It must be noted that BCP operates through individual subsidiaries, and 100% of these investments are deducted from bank-only regulatory capital, the basis for regulatory reporting; current regulations do not break out Tier I and Tier II elements. Peruvian banks report bank-only risk-adjusted leverage ratios (risk-weighted assets/regulatory capital) and the legal limit is 11 times (x) - equivalent to a 9.1% BIS capital ratio. BCP's regulatory leverage ratio improved from 9.1x (11% BIS) at December 2005 to 8.5x (11.8% BIS) at December 2006 thanks to a \$120m subordinated debt issue which is considered capital per local regulation. Further improvement to 8.1x (12.5% BIS) at September 2007 is due to \$100m retained earnings and a new \$160m (PEN-equivalent) issue of subordinated debt. Management projects that the BIS capital ratio

would fall to 11.8% by YE 2007 and, going forward, be maintained at least above the new, more stringent internal capital limit of 11.5% by retaining earnings and, most importantly, by issuing perpetual debt. However, regulatory capital includes an increasingly important part of subordinated debt (28% at October 2007) which receives no equity credit under Fitch's methodology, as it does not include an interest deferral feature in its structure. Following Fitch's criteria to assess hybrid's equity content and adding back the investments in subsidiaries, the adjusted BIS capital ratios- would be about 11% at October 2007 and hit lows of 10.3% going forward. Current levels of capital are seen as stretched, given future growth plans, and further capital weakening could result in pressure on the bank's IDRs. Management has indicated that earnings retention (\$100m) and an issue of perpetual debt (\$220m in 1H08), expected to contain high equity credit, would ensure that adjusted capital ratios will not fall significantly below current levels and would even improve to about 12% BIS. Local regulations are expected to be adapted in the near future to allow for more equity-like hybrid capital instruments to be issued. Current market conditions may make such an issue challenging for BCP, but its broad access to local capital markets gives some comfort in this regard.

### Income Statement Analysis – Banco de Credito Del Peru

	Sept. 30, 2007		Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	Income	As % of	Income	As % of	Income	As % of	Income	As % of
	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV	Expenses	Total AV
	PENm	Earning Assts	PENm	Earning Assts	PENm	Earning Assts	PENm	Earning Assts
	Original	Original	Original	Original	Original	Original	Original	Original
1. Interest Received	2,369.8	10.40	2,250.4	8.63	1,791.4	8.36	1,509.8	8.29
2. Interest Paid	856.2	3.76	810.4	3.11	518.7	2.42	431.6	2.37
3. Net Interest Revenue	1,513.6	6.64	1,440.0	5.52	1,272.7	5.94	1,078.2	5.92
4. Other Operating Income	798.4	3.50	1,061.6	4.07	1,043.6	4.87	867.5	4.76
5. Provision for loan losses	135.7	0.60	147.5	0.57	95.6	0.45	101.9	0.56
6. Other Provisions	0.4	0.00	n.a.	—	NA.	—	NA	—
7. Personnel Expenses	460.7	2.02	757.6	2.91	586.1	2.74	524.5	2.88
8. Other Non-interest Expenses	564.9	2.48	663.6	2.55	687.1	3.21	715.0	3.92
9. Operating Profit	1,150.3	5.05	932.9	3.58	947.5	4.42	604.3	3.32
10. Other Non-operating Income	(216.00)	(0.95)	(35.50)	(0.14)	(36.00)	(0.17)	NA	—
11. Extraordinary Items	7.90	0.03	NA.	—	NA.	—	(13.20)	(0.07)
12. Pre-Tax Profit	942.20	4.13	897.40	3.44	911.50	4.26	591.10	3.24
13. Tax	224.60	0.99	235.80	0.90	219.80	1.03	140.20	0.77
14. Inflation Adjustment	NA	—	NA	—	0.00	0.00	(131.60)	(0.72)
15. Net Income	717.60	3.15	661.60	2.54	691.70	3.23	319.30	1.75

Balance Sheet Analysis – Banco de Credito Del Peru

	Sept. 30, 2007			Dec. 31, 2006		Dec. 31, 2005		Dec. 31, 2004	
	Nine Months – 3rd Quarter		As % of Assets	Year End	As % of Assets	Year End	As % of Assets	Year End	As % of Assets
	USDm	PENm							
	Original	Original	Original	Original	Original	Original	Original	Original	Original
<b>A. Loans</b>									
1. Customer	7,116.0	22,308.7	55.24	13,273.6	39.37	11,728.1	37.24	9,197.3	39.25
2. Other	NA	NA	—	2,478.6	7.35	1,953.1	6.20	1,569.0	6.70
3. Leased Assets	NA	NA	—	2,201.0	6.53	1,967.5	6.25	1,394.5	5.95
4. Restructured	90.6	284.1	0.70	397.7	1.18	595.4	1.89	794.1	3.39
5. Impaired	64.4	201.8	0.50	240.4	0.71	321.5	1.02	496.4	2.12
6. (Loan Loss Reserves)	195.9	614.1	1.52	603.6	1.79	672.1	2.13	791.6	3.38
<b>Total A</b>	<b>7,075.1</b>	<b>22,180.5</b>	<b>54.93</b>	<b>17,987.7</b>	<b>53.36</b>	<b>15,893.5</b>	<b>50.47</b>	<b>12,659.7</b>	<b>54.03</b>
<b>B. Other Earning Assets</b>									
1. Deposits with Banks	710.2	2,226.6	5.51	3,584.7	10.63	2,929.5	9.30	2,007.0	8.57
2. Marketable Securities	2,743.3	8,600.1	21.30	5,984.1	17.75	5,558.8	17.65	3,588.7	15.32
3. Other Investments	33.6	105.4	0.26	98.8	0.29	98.9	0.31	106.9	0.46
4. Equity Investments	NA	NA	—	NA	—	NA	—	NA	—
<b>Total B</b>	<b>3,487.1</b>	<b>10,932.1</b>	<b>27.07</b>	<b>9,667.6</b>	<b>28.68</b>	<b>8,587.2</b>	<b>27.27</b>	<b>5,702.6</b>	<b>24.34</b>
<b>C. Total Earning (A+B)</b>	<b>10,562.2</b>	<b>33,112.6</b>	<b>82.00</b>	<b>27,655.3</b>	<b>82.03</b>	<b>24,480.7</b>	<b>77.74</b>	<b>18,362.3</b>	<b>78.36</b>
<b>D. Fixed Assets</b>	<b>198.0</b>	<b>620.6</b>	<b>1.54</b>	<b>625.8</b>	<b>1.86</b>	<b>645.8</b>	<b>2.05</b>	<b>698.6</b>	<b>2.98</b>
<b>E. Non-Earning Assets</b>									
1. Cash and Due from Banks	1,505.6	4,720.0	11.69	4,493.1	13.33	5,485.1	17.42	3,611.7	15.41
2. Other	615.2	1,928.5	4.78	938.7	2.78	878.0	2.79	759.2	3.24
<b>F. Total Assets</b>	<b>12,880.9</b>	<b>40,381.7</b>	<b>100.00</b>	<b>33,712.9</b>	<b>100.00</b>	<b>31,489.6</b>	<b>100.00</b>	<b>23,431.8</b>	<b>100.00</b>
<b>G. Deposits and Money Market Funding</b>									
1. Demand	2,720.9	8,530.0	21.12	7,925.9	23.51	7,498.9	23.81	5,354.1	22.85
2. Savings	2,130.2	6,678.2	16.54	6,238.9	18.51	5,681.7	18.04	4,964.9	21.19
3. Time	3,635.4	11,397.1	28.22	9,013.3	26.74	7,232.6	22.97	5,923.3	25.28
4. Interbank	1,330.9	4,172.4	10.33	1,565.4	4.64	3,413.2	10.84	743.3	3.17
5. Other	1,002.8	3,143.8	7.79	3,827.1	11.35	2,723.7	8.65	1,983.7	8.47
<b>TOTAL G</b>	<b>10,820.3</b>	<b>33,921.5</b>	<b>84.00</b>	<b>28,570.6</b>	<b>84.75</b>	<b>26,550.1</b>	<b>84.31</b>	<b>18,969.3</b>	<b>80.96</b>
<b>H. Other Funding</b>									
1. Other Borrowings	375.4	1,176.9	2.91	694.8	2.06	891.5	2.83	1,115.8	4.76
2. Subordinated and Convertible Debt	221.1	693.1	1.72	708.8	2.10	331.2	1.05	333.7	1.42
3. Hybrid Capital	NA	NA	—	NA	—	NA	—	NA	—
<b>I. Other (Non-int. bearing)</b>	<b>493.8</b>	<b>1,548.2</b>	<b>3.83</b>	<b>877.8</b>	<b>2.60</b>	<b>925.7</b>	<b>2.94</b>	<b>594.8</b>	<b>2.54</b>
<b>L. Equity</b>									
1. Preference Shares	NA	NA	—	NA	—	NA	—	NA	—
2. Common Equity	970.3	3,042.0	7.53	2,860.9	8.49	2,791.1	8.86	2,418.2	10.32
<b>Total L</b>	<b>970.3</b>	<b>3,042.0</b>	<b>7.53</b>	<b>2,860.9</b>	<b>8.49</b>	<b>2,791.1</b>	<b>8.86</b>	<b>2,418.2</b>	<b>10.32</b>
<b>M. Total Liabilities and Equity</b>	<b>12,880.9</b>	<b>40,381.7</b>	<b>100.00</b>	<b>33,712.9</b>	<b>100.00</b>	<b>31,489.6</b>	<b>100.00</b>	<b>23,431.8</b>	<b>100.00</b>
Exchange Rate	USD1 = PEN 3.1350			USD1 = PEN 3.1955		USD1 = PEN 3.4300		USD1 = PEN 3.2790	

**Ratio Analysis – Banco de Credito Del Peru**

	Sept. 30, 2007	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	Original	Original	Original	Original
<b>I. Profitability Level</b>				
1. Net Income/Equity (av.)	32.42	23.41	26.56	13.72
2. Net Income less Pref. Div./Common Equity (av.)	32.42	23.41	26.56	13.72
3. Net Income /Total Assets (av.)	2.58	2.03	2.52	1.38
4. Operating Profit/Total Assets (av.)	4.14	2.86	3.45	2.61
5. Costs/Income	44.36	56.81	54.97	63.70
6. Costs/Total Assets (av.)	3.69	4.36	4.64	5.35
7. Net Int. Revenue/Total Assets (av.)	5.45	4.42	4.63	4.65
<b>II. Capital Adequacy (Year End)</b>				
1. Internal Capital Generation	8.18	2.47	14.31	3.39
2. Equity/Total Assets	7.53	8.49	8.86	10.32
3. Equity/Loans	13.71	15.90	17.56	19.10
4. Capital/Risks — Tier 1	NA	NA	10.98	12.97
5. Capital/Risks — Total	11.30	11.82	10.98	12.97
<b>III. Liquidity (Year End)</b>				
1. Liquid Assets/Deposits and Money Mkt Funding	20.48	28.27	31.69	29.62
2. Liquid Assets and Marketable Debt Securities/Deposits and Money Market Funding	—	—	—	—
3. Loans/Deposits and Money Market Funding	65.39	62.96	59.86	66.74
<b>IV. Asset Quality</b>				
1. Loan Loss Provisions/Gross Loans (av.)	0.87	0.84	0.64	0.74
2. Loan Loss and other Provisions/Profit before Provisions and Taxes	—	—	—	—
3. Loan Loss Reserves/Impaired Loans	12.62	14.12	9.49	14.70
4. Loan Loss Reserves/Gross Loans	304.31	251.08	209.05	159.47
5. Loan Loss Reserves/Gross Loans	2.69	3.25	4.06	5.88
6. Gross Impaired Loans/Gross Loans	0.89	1.29	1.94	3.69
7. Restructured Loans/Gross Loans	1.25	2.14	3.59	5.90
8. Net Impaired Loans/Equity	(13.55)	(12.70)	(12.56)	(12.21)
9. Net Charge-offs/Gross Loans (av.)	NA.	0.87	1.56	3.25

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