

Insurance
Peru
Full Rating Report

El Pacifico Vida Compañía de Seguros y Reaseguros

Ratings

Security Class	Current Rating
Local Currency Insurer Financial Strength	BBB
Sovereign Risk	
Foreign Long-Term IDR	BBB-
Local Long-Term IDR	BBB

Rating Outlook

Stable

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Related Research

Applicable Criteria

- [Insurance Rating Methodology, Dec. 29, 2009](#)

Other Research

- [Latin America Insurance Review & Outlook 2010: Good Growth Prospects but Challenges Ahead, May 18, 2010](#)

Rating Rationale

- El Pacifico Vida Compañía de Seguros y Reaseguros' (Pacifico Vida) ratings reflect its adequate profitability, conservative asset and liability management, strong and diversified distribution channels, ample market share, and improved leverage ratios. Its conservative subscription policies, strong corporate governance rules, and effective management tools also benefit its ratings.
- Its association with the largest financial conglomerate in the country, Grupo Credicorp (GC), and own expertise allow the company to leverage its brand and properly diversify its business. As of December 2009, its market share was ample (26% of the life insurance market and 11% of the overall Peruvian insurance market) with no relevant concentration in terms of distribution channels outside those provided by the companies of GC. Its current market share and overall conservative business approach bode well to preserve and/or enhance its market share.
- Adequate underwriting tools (and in some cases, management decisions to step away from risky market practices) and the good quality of its investment portfolio have yielded good returns in the recent past, with an average return on average assets (ROAA) of above 3% in the last five years. This trend should be preserved in the medium term.
- Given the limitations of the local capital market, Pacifico Vida's investment portfolio shows higher than average exposure to sovereign debt compared to other international players (2.2x its equity as of December 2009) but is in line with the trend observed in other emerging markets. The company's asset and liability management is conservative. Despite the former, the majority of its investment portfolio (38%) is comprised of investments rated in the 'BBB' range and 27% in securities rated 'A-' or above; the remainder is explained by its investments in the local capital markets that do not carry international ratings but are represented by the best local names. Exposure to riskier assets is limited.
- Given the significant importance of the annuities business (52% of total technical reserves) and conservative local accounting rules, Pacifico Vida's leverage ratios seem higher than its peers in the region and in the developed markets (liabilities to equity of 6.1x as of December 2009), although the company does not present any financial debt and its ratio of net retained premium to equity of 1.1x is adequate.

Key Rating Factors

- The Rating Outlook is Stable. The ability of the company to further enhance its capitalization and its investment portfolio diversification could benefit its ratings, although the current sovereign rating could hinder multiple notch upgrades.

Profile

62% of Pacifico Vida's capital is controlled by Pacifico Peruano-Suiza Compañía de Seguros y Reaseguros (PPS, a company member of GC), and the remainder is controlled by American Life Insurance Company (ALICO). The current shareholder structure could be affected by the recent acquisition offer of ALICO by MetLife. However, at the moment it is too early to judge the final outcome of this financial transaction.

- Member of the second largest insurance group in Peru and the largest financial conglomerate.
- Leading company in the life business.
- Strong and diversified distribution channels.
- Possible changes in its shareholder structure should not affect the performance and financial strength of the company.

Company History

Pacifico Vida started in 1997. At that time, the company received the business portfolio managed by its shareholder, PPS. In regards to the life branches, PPS continued offering accident coverage to its clientele, a branch also offered by Pacifico Vida but covering different client profiles. At year-end 2009, Pacifico Vida was the largest subsidiary of PPS, responsible for around one-third of the total business managed by PPS.

PPS is a diversified insurance company that offers protection in nonlife branches, while Pacifico Vida covers life business. PPS has also operated a health services company. At year-end 2009, PPS' total consolidated earned premium (including the property and casualty (P&C), life, and health businesses) reached around USD609 million with a total consolidated equity of USD186 million, making it the second largest insurance group in Peru.

PPS' primary shareholder is Credicorp S.A. (75%), a local financial conglomerate that owns, among other investments, the largest commercial bank in Peru, Banco de Crédito del Peru (BCP). Another 20% is controlled by ALICO (shares that were formerly in hands of American Underwriters Overseas (AIUO), a subsidiary of American International until 2009). The remaining 4% of PPS' shares is held by approximately 190 minority shareholders. PPS and Pacifico Vida have enjoyed a very close collaboration with AIG and ALICO in terms underwriting skills, business development initiatives, and the overall management of the company. This relationship is still maintained with ALICO, although its too early to judge whether or not the current shareholder structure will prevail in the future and/or what MetLife's approach in regards to its minority position in the company will be. What can be said, however, is that PPS and Pacifico Vida have a sufficient amount of commercial and technical skills to continue managing the business in a conservative and appropriate way despite the possible lack of an international partner. It is also worth mentioning that given the minority position of ALICO in Pacifico Vida and the limited importance of the company in regards to the global operation of ALICO, Pacifico Vida's rating is considered a stand-alone rating (see "Fitch's Approach to Rating Insurance Groups," published March 24, 2010 at www.fitchratings.com).

As is the case in other companies of GC, corporate governance rules are considered to be the forefront of regional trends and, hence, comparable with international best practices. In addition to local regulatory guidelines in regards to corporate governance and financial information transparency, Pacifico Vida also complies with international standards in terms of corporate governance like the Sarbanes-Oxley Act of 2002 and other major requirements (as a member of GC, a company that is listed on the New York Stock Exchange). The strict fulfillment of the aforementioned standards is positively viewed by Fitch as part of a healthy control over the financial position of the company, which is not common in the region.

Strategy

Since its incorporation, Pacifico Vida has historically enjoyed a significant and growing market share, boosted not only through the offer of a wide array of insurance products and above-average service, but also leveraged in an ample distribution network and the use of several nontraditional commercialization channels in order to effectively tap the market. As such, the company not only benefits from the demand of disability and survivor (D&S) protections by an affiliate company of Credicorp (AFP Prima) and other market players, which in total account for around 17% of net earned premiums at year-end 2009, but also from the ample branch network of BCP, which accounts for another 17% of total net earned premium. In addition, since 2002 the company has invested significant resources in order to expand its nontraditional channels such as banks other than BCP, utilities companies, retailers, and other massive distribution channels in

order to provide low-cost and very profitable insurance products to middle-income clients. Also, the company manages a sophisticated telemarketing channel that improves its overall service quality and serves as a way to sustain the fidelity of its customer base and tap new markets. Around half of Pacifico Vida's premiums (including annuities) are distributed directly through a large branch network of the company, which is a major strength that sustains more product diversification along their current client base. The remainder is distributed by brokers and some cross-sell opportunities with one of its shareholders, PPS.

Since its inception, Pacifico Vida has sustained a conservative business approach and in many cases has decided to leave some business on the table in order to avoid nonconservative underwriting despite the temporary effects on its overall market share. Since 2006, and as a result of fierce competition in the annuities business, Pacifico Vida decided not to align itself with market practices, hence limiting the offer of such protections with yields above the possibilities of the maintenance of a conservative investment portfolio, resulting in a significant decrease in its growth trend in that branch, but preserving the company's financial strength in the medium and long term. On the contrary, the company has remained one of the main players in the country's traditional life products, with a market share of 42% at year-end 2009 (36% in average since 2005) and 18% of the annuities and D&S business.

Given the expected rebound in economic activity in Peru for 2010 and the evident low insurance penetration seen in the country, Pacifico Vida expects to speed up its growth in the short and medium term based on its strong distribution channels, the benefits of a large and not completely exploited consumer base, and its relationship with the largest financial group in the country (GC).

Market Trends

After a period of sustained deterioration in its technical results (2004–2008) — affected by fierce price competition — the Peruvian insurance market (life and P&C combined) is finally on its way to posting improved results in the short and medium term. The most concentrated insurance market in the region, where the three largest insurance companies manage more than 70% of total collected premiums, has been characterized by high rivalry levels despite the sustained growth provided by vigorous economic activity and the expansion of the insured universe in the country (12.4% average premium growth during the 2004–2009 period). During the 2004–2008 period, competition was highly driven by price reductions, while the trend in the average cost of claims (and its frequency) deteriorated in part due to less than proportional growth in the providers of good and services to the insurance market and the overall outdated transportation grid in the country. Also, the occurrence of some high value claims in 2007 and 2008 resulted in a deterioration of the claims ratio. As such, the net loss ratio increased to a peak of 81% in 2007 (from 68% in 2003), while net operating costs are still sizable at around 40%. With that in mind, the Peruvian insurance market posted combined ratios well above 100% from 2004 until 2008 (126% average) due to a more cautious approach in terms of pricing since late 2008, advances in terms of claims cost control, and slight but still limited advances in operating costs resulted in the first combined ratio below 110% in 2009. This trend may continue in 2010 thanks to price discipline, the overall expected growth of the economy, and the benefits of better underwriting and claims control techniques.

In regards to the life insurance market, 2009 was quite positive, with profitability ratios rebounding to previous averages (ROAA around 3.5%) after a year of lower financial income partially due to the global financial crisis and some nonrecurring gains observed in 2007 and 2008. This rebound in profits was also possible because of lower claims

- A highly concentrated but competitive insurance market.
- Good growth prospects for the economy and the sector.
- Fierce competition will prevail in the short and medium term.

pressures, especially from the health business and the compulsory workers' compensation scheme, and some cost saving initiatives pursued by several players.

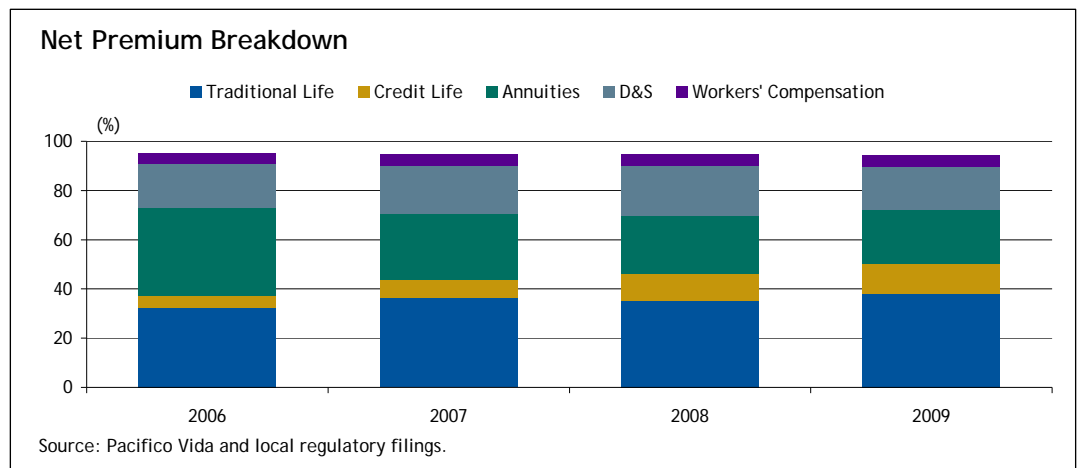
Similar to most of the countries in the region, asset quality was vaguely affected by the international financial crisis due to conservative investment policies followed by the market, the controls over investments abroad contemplated by the regulator, the sizable participation of Peruvian government debt, and, to a lesser extent, investments in the still shallow local capital market. Accordingly, financial income improved in 2009.

Similar to the Chilean insurance market and, to a lesser extent, the Brazilian market, the significant and growing share of life insurance — annuities related to the private pension fund scheme as the largest driver of such growth — results in a steady increase in the liabilities-to-equity ratio (average of 4.5x during the 2005–2009 period), but is still well below the levels seen in Chile where the industry is more mature. Despite the former, a relatively conservative dividend payout ratio has helped mitigate that trend, a policy that may be expected in the short and medium term given the bright growth prospects of the sector for 2010 and 2011. Recent regulatory changes in regards to earlier pension possibilities for employees with certain characteristics will result in temporary expansion of the life insurance market in the country at the very least. (See “Latin American Insurance Review & Outlook 2010: Good Growth Prospects with Challenges Ahead,” published on May 18, 2010 at www.fitchratings.com.)

Financial Performance

Underwriting and Business Lines

Pacifico Vida provides insurance coverage in the life business branches, while coverage in the nonlife branches is provided by PPS, one of its shareholders. At year-end 2009, the company offered services in the following branches: life, annuities, D&S, credit life, and workers' compensation. For the last five years, traditional life policies provided the bulk of net retained premium for the company (35% of the total), with individual life representing around 75% of that total. In the case of annuities, although it remains the second largest source of premium for the company, its share in terms of total retained premiums has decreased (see Strategy) to 21.4% in 2009 from a peak of 44% in 2005. This trend may be reversed if some regulatory changes in regards to the introduction of local currency (or inflation adjusted) annuities are introduced. D&S coverage (highly related to the demand of the private pension fund administrators) has represented around 18% of the total, but this contribution may be affected by the demand of a market dependant on the trends of employments figures, relative fierce competition, and the current scheme of regular bids made by the administrators to procure the



coverage for its customers. The remainder of net premium income is explained by credit life products (8.5% of total net premium), and compulsory workers' compensation products (almost 5%).

Similar to many life insurance companies, characterized by an atomized customer base, Pacifico Vida does not show any significant concentration in terms of premiums collected except for those businesses that are channeled through BCP or AFP Prima, which jointly represented about one-third of total gross premiums. There is no relevant concentration in terms of brokers or any other distribution channel.

Given the high level of dollarization of the Peruvian economy, most of the business subscribed by Pacifico Vida is denominated in U.S. dollars because the behavior of the foreign exchange market could affect its premium income due to sudden changes in the exchange rate, and local inflation is not always parallel to the changes of the exchange rate. Despite this fact, and given that the largest portion of claims of the company are not related to local inflation and are predetermined amounts of money, changes in the exchange rate should have a less than proportional effect as opposed to the one seen in other P&C and composite insurers in the country. Pacifico Vida follows a close monitoring process of its exposure and is hedged in terms of currency, maturity, and interest rates aided by the significant portion of its investment portfolio denominated in U.S. dollars.

Operating Performance

Being committed to strong underwriting policies and the conservative management of its asset and liabilities has been key for Pacifico Vida to post strong profits in the last five years despite fierce competition and the volatility of the international capital markets. The steady growth of its revenues allow the company to better distribute the costs of its extensive distribution channels, resulting in significant improvements in its efficiency levels while the claim ratio has improved in most of its business lines. Bright growth prospects for the Peruvian insurance market and the consolidation of its franchise and underwriting techniques should allow Pacifico Vida to preserve or expand its market share without compromising its profitability, which may be needed to sustain current leverage levels.

Similar to what is seen in other life insurance companies in the region, premium growth is highly correlated to employment trends and the expansion of the credit portfolio of the banks, which both performed negatively during 2009. In the case of Pacifico Vida, and similar to the rest of the Peruvian market, 34% of total premium sales are almost dependant on these variables (credit life, workers' compensation, and D&S survivor), while annuities (22% of the total during 2009) are also clearly correlated to the "formally employed workforce" (excluding those self employed people that may be not covered by the private pension fund scheme) because current insurance sales not formally related to trends in the workers' market are just 38% of the total (traditional life lines). Considering that fact, total premium growth slowed to just 9% in 2009 compared to 22% in the previous year and slightly less than the market average. This growth was propelled mostly by traditional life products and personal accidents, while most of the other business lines registered a discrete contraction during the year.

Despite this trend in growth, adequate control on claims and the benefit of an expanded premium base in traditional life lines that registered a double fold increase in the last five years, Pacifico Vida's claim ratio decreased to 65%, while the average of the previous five years was around 77%. As such, the reported net claim ratio for traditional life fell to 13% from an average of 17% in the 2005–2008 period, workers' compensation decreased to 73% from more than 100% in 2008, and D&S was only 89% compared to a market average of around 109% in 2009. Further improvement in the

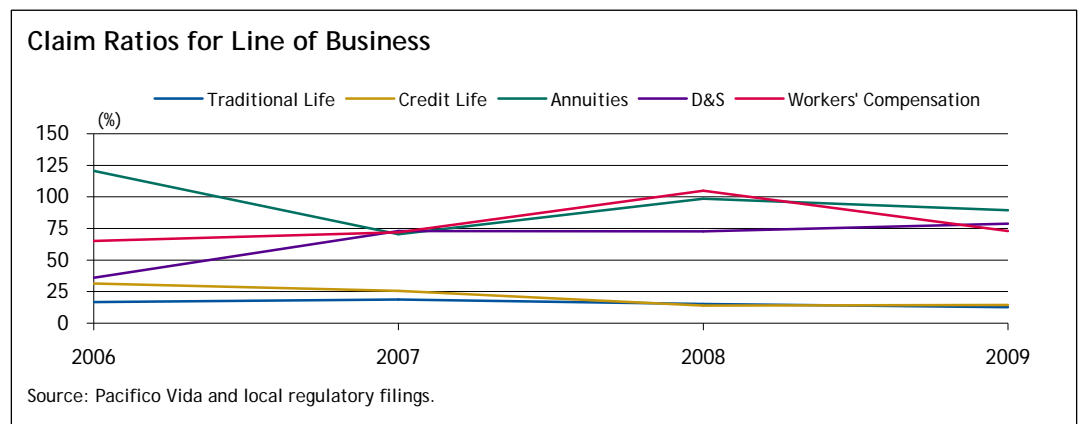
- Good premium diversification.
- Sustained advances in terms of cost efficiency.
- Controlled claim ratio.
- Strong financial result has supported good profitability ratios.
- Medium-term earnings outlook is promising.

claim ratio may be difficult to achieve given the burden of the annuities payments (recorded locally as claims) that may result in a floor to the overall claim ratio, while the current good claim ratio of the other branches will be challenging to reduce.

Significant investments in its distribution channels in the past (ample direct sales network, massive distribution channels, and the enhancement of its IT platform) are finally paying off. During 2009, the ratio of net operating costs to net retained premium decreased to 31.5% (8.5% of average managed assets), the lowest level in the last eight years (in term of premium) but still above international best practices.

Unlike many players in the international insurance industry, and even in other Latin American countries, Pacifico Vida's net financial income remained fairly stable in 2008 and 2009 thanks to the good quality of its investment portfolio and appropriate asset and liability management. Despite the former, and as expected, the ratio of financial income to net earned premium has decreased from its peak in 2007 (almost 49%) to 38% in 2009. This level is still adequate and aligned with the downward trend in interest rates.

Similar to other players in the market, the effective tax rate of Pacifico Vida is relatively low for international standards given several tax exemptions included on the Peruvian tax law and mainly related to the income resulted from the investment portfolio. Recent changes in the tax regime in Peru will not affect this trend. Due to the improvement of the claim and expense ratio and despite the lower financial yield, overall profitability ratios recovered during the year (ROAA of 3.3% in 2009 versus 2.4% in 2008) to a level that is expected to be maintained in the short and medium term.



Reserves and Other Liabilities

In the case of life insurance companies, there are five different types of reserves under Peruvian insurance law: claims (including IBNR) and mathematical for life, annuities, D&S, and complementary workers' compensation business. These reserves must be created following the company's own experience (in the case of claims reserves) and using actuarial estimates following the guidelines mandated by the regulator. In the case of Pacifico Vida, however, the company also enhances those guidelines based on international standards in order to create voluntary reserves in case those are needed.

Pacifico Vida has developed different tools in order to enhance the reserve creation process by trying to adjust it to the actual needs of its subscribed business while staying in compliance with local regulations. In many cases, the company uses a more conservative reserve methodology compared to local regulations, using international actuarial practices and the company experience. The reserve methodologies are

- More conservative reserve policies compared to local players, but in line with international trends.
- Annuities and D&S reserves dominate overall liabilities.

developed by an actuary with significant international experience and monitored by the company's own internal audit unit, as well as the auditors of Credicorp, external auditors, and local regulators. Also, given that Pacifico Vida consolidated its operation into Credicorp, and the latter is listed in the NYSE, Pacifico Vida must present its financials and follow the accounting rules used by international players. It is worth mentioning that during 2009, the local regulator allowed the company to follow its internally developed reserving criteria for the IBNR that compares more conservatively to those local guidelines.

In 2009, Pacifico Vida's total reserves increased to PEN2,043 million, reflecting the company's increased business volume. Mathematical reserves, including annuities and D&S, represented the largest reserve with an 86% participation of technical reserves, which was consistent with the larger participation of these branches in total. Total claims reserves (including IBNR) represented almost 10% of the total, while the remainder included some reserves derived from the mismatch of a small amount of liabilities that are unhedged with similar assets (locally known as Reservas de Calce). The company shows high levels of reserve coverage, which is typical of a life insurer with a significant concentration in asset management products (552% of retained premium at end 2009) above the market average. This ratio has maintained a negative trend in the last few years as a consequence of the larger share of traditional life segments and the short term of the recent built-up portfolio. Technical reserves continued to be the largest component of Pacifico Vida's liabilities (more than 99% at year-end 2009), while the remainder was comprised by minor accounts payable. No financial debt is recorded at year-end 2009. In general, Fitch believes that Pacifico Vida's reserving policies are in line with regional and international best practices, although the lack of more robust data from the Peruvian market, given its low development levels, may suggest some room for improvement in the medium and long term when that statistical information becomes available.

Investments and Liquidity

Investment policies in Pacifico Vida are considered conservative and consistent. The company pursues conservative policies in regards to the quality of the investment, limits per issuer and economic group, and currency. In general, the company follows adequate asset and liability management and an investment policy differentiated by the portfolio requiring backing by its technical reserves and the required solvency margin; the company also has another portfolio for other investments (equity position). In general, the company engages in limited participation in variable income securities in all of its investment portfolios. For a number of years, Pacifico Vida has used external advice to manage its portfolio of investments abroad, even when the company is in full control of its investing policies and the managers can only move within the specific guidelines demanded by Pacifico Vida based on its internal policies and risk appetite. Recently the previous portfolio manager was replaced by a group of two international and well regarded managers.

The overall investment policy of the company was revised in 2009 and 2010, being that some changes in terms of maximum concentration per issue and issuer were granted (only to its equity position). The changes allow the company to engage in commercial real estate investments in Peru and to expand its scope to securities issued abroad with credit ratings no lower than 'BBB+' with the approval of the investment committee (previously the limit was 'A-'). The company also decided to hold a group of issuances rated below this threshold until maturity after those were downgraded during 2008 and 2009. Currently, the portfolio of investments abroad with ratings below the 'BBB+' threshold is 25% of its equity, while securities rated below investment grade represent 10% of its equity.

- No meaningful exposure to variable income securities.
- Adequate asset and liability management.
- Recent changes in the investment portfolio designed to enhance its profitability and widen its diversification seems conservative but still needs to be tested.
- Minor exposure to critiqued assets (10% of its equity).

The investment objectives in terms of profitability, maturity, and risk are differentiated among the portfolios (equity position and those backing technical reserves and the solvency margin). Nevertheless, the full hedge of the company's liabilities is the main objective of the policy. In some cases, where the hedge is not possible, the company has adopted an excess investment approach in order to guarantee enough flow of resources to cover unhedged liabilities in the future. At year-end 2009 the company's exposure to real estate investments slightly decreased to 10% of its equity (mostly due to the dilution of a larger equity) and was represented by a commercial real estate building in Peru's capital city, which started to produce rent income during the second quarter of 2009 and is managed through a medium-term leasing contract with well regarded large companies (multinationals and locals).

Despite its tight investment policies, the lack of adequate instruments to back up reserves for old annuities products (some of them adjusted by local inflation) has resulted in a relevant, but slightly decreasing concentration of the investment portfolio in Peruvian government debt (34% of gross liquid assets at year-end 2009, equivalent to 2.3x equity). Following local guidelines (recently changed in 2009), the securities portfolio is registered through three different categories: trading (registered at market value through the income statement), available for sale (registered at market value through changes in equity), and held to maturity (at cost).

In 2009, total liquid investments reached PEN2,282 million (including bank deposits), while 93% of the investment portfolio is registered as held to maturity given the long-term nature of the liabilities. Also, the breakdown of the gross portfolio (including cash and bank deposits) at year-end 2009 was as follows: Peru's sovereign debt (34%), foreign private and public sector fixed income (32%), local fixed income (25%), and bank deposits (4%); the remainder was comprised of local and foreign mutual funds and the previously mentioned commercial real estate investment. It is worth mentioning that around two-thirds of the portfolio is invested in securities issued in foreign currency. Pacifico Vida does not present any concentration of its investment portfolio in related parties (excluding bank deposits held at BCP).

In terms of the quality of the investment portfolio and given the portion of investments made in the local market, Pacifico Vida shows an above average proportion of nonrated securities compared to other international players. It is worth mentioning that the bulk of the investments on local market fixed income securities (25% of total investments) may not carry international ratings, although the company relies on national scale ratings assigned by local rating agencies and is only allowed to invest in the highest end of the scale (national rating of 'AA-' and above).

Thanks to a conservative asset and liability management policy, Pacifico Vida has been able to adequately manage its investment portfolio despite the limitations of the undeveloped local capital market and the international financial turmoil. Unrealized losses were almost immaterial as of year-end 2009, while non-investment grade assets were mainly due to issuances of Peruvian companies in the local market (with adequate risk profiles) and a minor concentration on below investment grade deferrable hybrid securities issued by international banks (10% of equity) that could slightly hinder the company's financial income going forward. However, this possibility is unlikely given the positive forecast associated with the issuers of those securities.

Liquidity ratios have remained stable and similar to the local average during the last three years, but slightly below international best practices. At year-end 2009, the liquid-assets-to-total-reserves ratio stood at 1.1x, which was the same as the ratio of liquid assets to total liabilities. The company does not account for loans in its assets, while fixed assets are mostly represented by the commercial real estate building

- Leverage ratios are moderate.
- A low concentration in fixed assets, related investments, and variable income securities reinforce the quality of its capital.
- Given the expected growth and lower risk appetite, the company expects to preserve a reasonable capital cushion compared to local regulatory guidelines.

- High retention levels (common of life insurance companies) with low event and catastrophe exposures in terms of equity.
- Directly managed reinsurance program in high-quality international companies.

mentioned above. Premium receivables show adequate rotation (suitable for life insurance companies) and low past due levels.

Reinsurance

Pacifico Vida's reinsurance program is mainly comprised of proportional and catastrophic protections, although, given the nature of subscribed risk (mostly with low severity and high frequency), the reliance and use of the reinsurance program is somewhat limited. Generally, the program is managed directly with reinsurers and the current proportional reinsurance program is lead by Swiss Re (leader of the program), General Cologne Re, and Hannover Re, while the catastrophic program is lead by General Cologne Re and Hannover Re. As is common in life insurance companies, retention levels are small in terms of the maximum loss per event (around 0.1% of total equity), while the maximum catastrophic retention is less than 1% of equity. The company also enjoys a very ample capacity, which covers more than double its maximum catastrophic exposure, while the company is also protected against terrorism risk. An adequate control of these exposures and the management of the inherent operating risk of reinsurance contracts have been enough to sustain good recoveries from its protections. In the last five years the company has not recorded material receivables from reinsurers.

Capital and Capital Adequacy

Like many insurance companies that actively participate in the annuities business, and also given local regulatory rules that require full provisioning of the expected outflows of the product (net present value of each annuity), Pacifico Vida shows a higher burden of technical reserves compared to other life insurance companies that mainly engage traditional life business. As such, its liabilities-to-equity ratio is higher than the average for life insurance companies in its country (6.1x versus 4.0x) and other life insurance markets. Nevertheless, the ratio is enhanced by the fact that the company does not rely on financial debt. Also, its reserving techniques compare with those seen in more developed markets, such as Chile, and are comparable with trends in USA and Europe. Its total leverage ratio (7.2x) is also affected by the same fact, but both have recorded some improvements during 2009, benefiting from lower growth and higher profits. On the other hand, the earned-premium-to-equity ratio has remained around 1.1x in the last five years, well in line with the market and other comparable players abroad.

After posting an average dividend payout ratio of 52% between 2006 and 2008, the company decided not to pay dividends in 2009 and paid 38% of its net income in cash dividends in the first quarter of 2010.

As is the case for local regulations in many other countries, Peru's capitalization requirements are monitored through the solvency margin methodology. Until now, this capitalization measure did not incorporate any charge for credit and operating risk (issues to be addressed in the future by the regulator, and was in line with the original Spanish Solvency rule commonly used in Latin America. In the case of Peru, the local rule also adds another capital requirement on top of that requirement (locally known as Guarantee Fund — a fixed proportion of total collected premium), which represents an additional 35% on average of the required equity demanded by the solvency margin rule. Companies must hold enough capital to cover both requirements because regulatory capital is only comprised of tier 1 capital, and retained earnings are not considered part of this capital. For the last five years the ratio of regulatory capital to required capital (solvency rule plus guarantee fund) has averaged 9% of excess (increased to 35% as of March 2010 thanks to the capitalization of retained earnings in early 2010), a margin that looks relatively tight compared to other international capital measures such as the RBC in the U.S. or the Solvency I rule in Europe. Excluding the burden of the

guarantee fund and incorporating retained earnings (after cash dividends), the adjusted solvency margin excess would be around 45%.

Pacifico Vida's equity represents 14% of total assets, which is in line with international standards. Given its low exposure to fixed and nonproductive assets, the capital base of the company is mostly unencumbered. Nevertheless, its government exposure could represent a risk in case of stress, even though the sovereign rating of Peru ('BBB-', Stable Outlook) could mitigate that fact.

Prospects

Pacifico Vida's business plan intends to protect and enhance its current market share in the Peruvian market. The expansion in the retail market and the refining of its clientele segmentation techniques in order to take more advantages are key for this business plan. The expected recovery of the Peruvian economy and the strong franchise of the company should bode well to achieve that goal, while conservative underwriting and asset management should protect its results against undesired swings. Two of the largest challenges of the company are the continued improvement of its efficiency levels and the diversification of its securities portfolio, even when the burden of the accumulated stock of annuities (and hence the investments already backing such commitments) will result in relatively small advances in that field in the coming years.

Financial Summary — El Pacifico Vida Compañía de Seguros S.A.

(Millions of Nuevos Soles, Consolidated)

	2009	2008	2007	2006	2005
Balance Sheet					
Liquid Assets	2,279	2,137	1,860	1,707	1,595
Deposits with Banks	134	181	213	212	131
Securities Portfolio	2,144	1,956	1,647	1,495	1,464
Private Sector	1,302	1,292	1,073	892	818
Government	775	739	639	664	647
Variable Income	39	34	7	0	0
Other	23	31	20	6	24
Reserves	5	(140)	(92)	(67)	(25)
Other	0	0	0	0	0
Loans	0	0	0	0	0
Premiums Receivable (Net)	13	19	15	16	15
Current	14	19	15	16	15
Past Due (> 30 days)	0	0	0	0	0
Reserves	0	0	0	0	0
Reinsurance Receivables	0	0	0	0	0
Fixed Assets	41	41	7	7	5
Investments in Subsidiaries and Affiliates	0	0	0	0	0
Other Assets	95	76	87	60	53
Total Assets	2,428	2,273	1,968	1,791	1,668
Claims Reserves	210	215	163	142	136
Claims	152	167	118	104	102
Incurred but not Reported	58	48	45	38	33
Technical Reserves	1,834	1,748	1,513	1,429	1,328
Mathematicals	309	250	192	163	138
Unearned premiums	10	8	6	5	4
Other	1,515	1,490	1,315	1,261	1,186
Bank Debt	0	0	0	0	3
Reinsurance Payable	3	3	1	2	1
Accounts Payable	40	47	40	14	9
Other Liabilities	0	0	0	0	0
Total Liabilities	2,087	2,013	1,717	1,587	1,477
Minority Interest	0	0	0	0	0
Paid in Capital	74	62	62	62	52
Reserves	186	148	126	104	88
Unrealized Gains (Losses)	3	0	0	0	0
Retained Earnings	77	50	63	37	52
Total Equity	341	260	251	204	191
Year-End Exchange Rate (Nuevos Soles/USD)	2.89	3.14	3.00	3.27	3.30

Source: Pacifico Vida audited information.

Financial Summary — El Pacifico Vida Compañía de Seguros S.A.

(Millions of Nuevos Soles, Consolidated)

	2009	2008	2007	2006	2005
Income Statement					
Gross Written Premium and Affiliates Contribution	570	522	428	385	364
Earned Premium and Affiliates Contribution	389	354	287	224	156
Ceded Premium	18	16	8	10	8
Net Written Premium and Affiliates Contributions	370	338	279	214	147
Gross Paid Claims	246	257	196	172	133
Claims Recovered from Reinsurance	5	7	2	3	3
Claims Recoveries	0	0	0	0	0
Retained Claims	240	250	194	169	130
Acquisition Costs	28	28	21	19	15
Operating Expenses	89	86	74	58	49
Net Operating and Acquisition Costs	117	114	95	77	64
Other Operating Income (Expenses) Net	(84)	(74)	(56)	(27)	(20)
Operating Result	(71)	(99)	(67)	(59)	(67)
Financial Income	165	166	140	116	102
Financial Expenses	10	10	0	0	0
Other Income (Expenses) Net	(7)	(7)	(0)	(13)	18
Extraordinary Items	0	0	0	0	0
Income from Subsidiaries and Affiliates	0	0	0	0	0
Profits before Taxes	77	50	73	44	52
Taxes	0	0	9	7	0
Participation of Minority Shareholders	0	0	0	0	0
Net Income	77	50	63	37	52
Financial Ratios (%)					
Performance					
Market Share (% Earned Premium)	11.24	10.25	9.88	7.09	5.83
Retention Ratio	95.2	95.5	97.1	95.7	94.6
Gross Loss Ratio	63.2	72.5	68.2	76.8	85.4
Net Loss Ratio	64.9	73.9	69.6	78.9	88.3
Acquisition Costs/Earned Premium	7.1	7.8	7.3	8.3	9.7
Operating Expenses/Earned Premium	22.9	24.2	25.9	25.8	31.6
Net Operating and Acquisition Costs/Net Earned Premium	31.5	33.5	34.2	35.7	43.6
Operating Result/Earned Premium	(18.3)	(27.9)	(23.3)	(26.2)	(43.2)
Combined Ratio	119.2	129.2	124.0	127.4	145.7
Operating Ratio (%)	79.1	85.1	74.0	79.4	64.9
Net Financial Income/Earned Premium	38.1	42.1	48.6	46.0	76.4
Return on Average Assets	3.3	2.4	3.3	2.2	3.4
Return on Average Equity	25.7	19.7	26.3	19.0	30.6
Solvency and Leverage					
Liabilities/Equity (x)	6.12	7.73	6.84	7.79	7.72
Reserves/Liabilities (x)	0.98	0.98	0.98	0.99	0.99
Financial Debt/Liabilities (%)	0.00	0.00	0.00	0.00	0.17
Reserves/Net Earned Premium (%)	551.86	579.90	601.41	733.36	992.59
Net Earned Premium/Equity (x)	1.09	1.30	1.11	1.05	0.77
Regulatory Capital Superlative (%)	15.34	0.87	10.64	6.21	10.58
Total Leverage/Equity	7.21	9.03	7.95	8.84	8.49
Equity/Assets (%)	14.04	11.46	12.76	11.38	11.47
Investments and Liquidity					
Liquid Assets/Reserves (x)	1.12	1.09	1.11	1.09	1.09
Liquid Assets/(Reserves + Financial Debt) (x)	1.12	1.09	1.11	1.09	1.09
Liquid Assets/Liabilities (x)	1.09	1.06	1.08	1.08	1.08
Fixed Assets/Total Assets (%)	1.68	1.80	0.36	0.41	0.32
Accounts Receivables Rotation (Days)	12.3	19.3	18.3	25.6	35.6

Source: Pacifico Vida audited information.

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