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DE BANCA, SEGUROS Y AFP



# The Strengths of Peru

## Financial, Insurance and Private Pension Systems

December 2008



## Supervised Systems

	Number of Institutions	Assets as of October 2008	
		Amount (US\$ Millions)	%
<b>Banking Institutions</b>	16	48 020	60.36
<b>Finance Companies</b>	3	305	0.38
<b>Non-Banking Microfinance Institutions</b>	36	3 021	3.8
Municipal Savings and Loan Institutions	13	2 205	2.77
Rural Saving and Loan Institutions	10	428	0.54
Micro-Entreprise Development Entities - EDPYME	13	388	0.49
-		-	
<b>State-owned Entities</b>	4	8 701	10.94
Banco de la Nación	1	6 170	7.76
Corporación Financiera de Desarrollo (Cofide)	1	1 472	1.85
Banco Agropecuario (Agrobanco)	1	99	0.12
Fondo MiVivienda	1	960	1.21
<b>Leasing Companies</b>	5	558	0.7
<b>Insurance Companies</b>	13	4 040	5.08
<b>Private Pension Funds</b>	4	14 913	18.74
<b>Others 1/</b>	26		
<b>SUPERVISED INSTITUTIONS</b>	<b>107</b>	<b>79 558</b>	<b>100</b>

1/ Includes fund transfer companies (12), other pension funds (5), general deposit warehouses (3), transportation, custody and specie management companies (2), trust company (1), surety and bonding company (1), the National Federation of Savings and Loans Cooperatives and Central Bank of Peru.

- The Superintendency of Banking, Insurance and Private Pension Funds (SBS) supervises more than a hundred institutions and US\$ 80 billion of assets.
- Banking institutions represented US\$ 48 billion (60.4% of the total assets), Non-Banking Microfinance Institutions US\$ 3 billion, and pension funds around US\$ 15 billion.



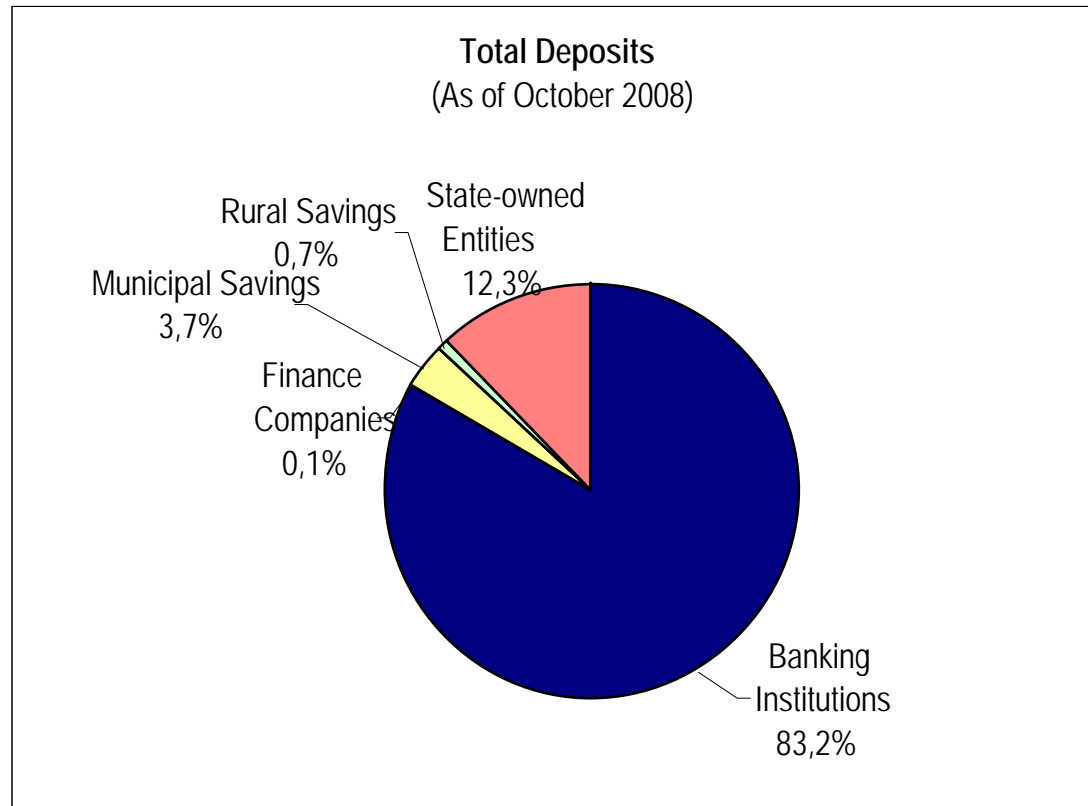
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# Peruvian Financial System

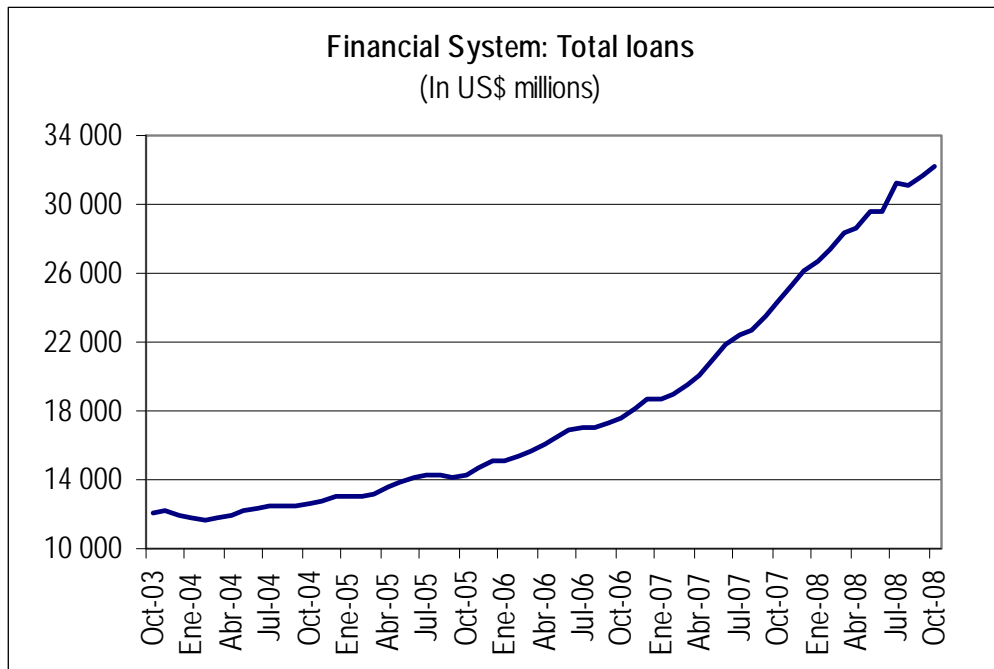


# The Financial System is mostly explained by Banking Institutions





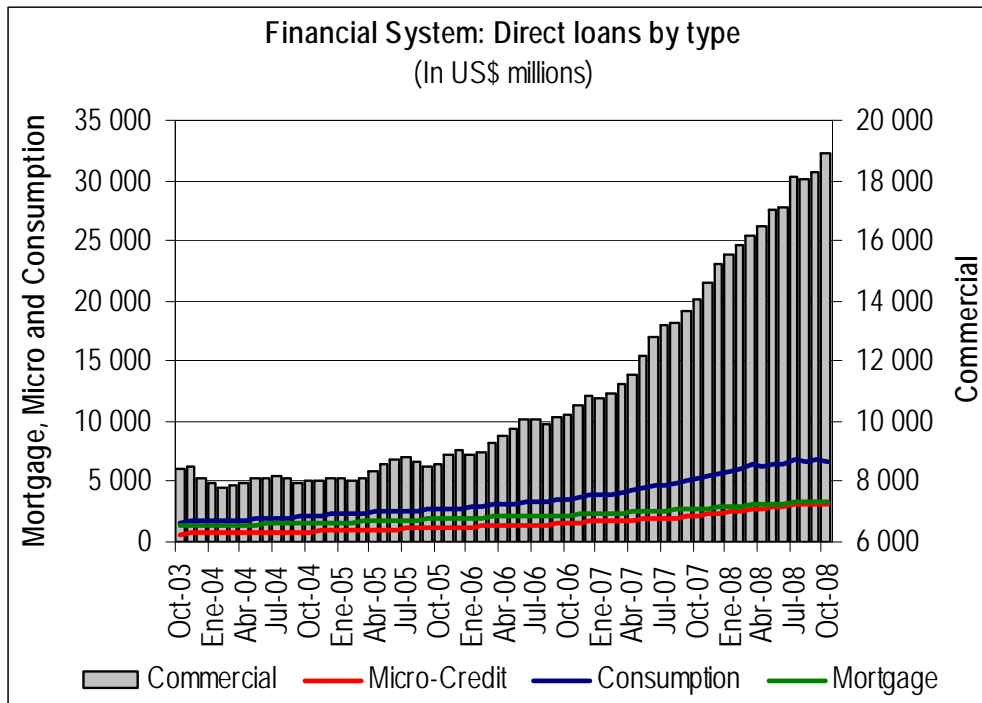
## The Financial System have experienced a significant growth in loans



- Loans registered an annual growth of 31.9% in the last year and an average annual growth of 15.6% during the past five years.
- At the end of October 2008 the loans reached a level of US\$ 32.2 billion.



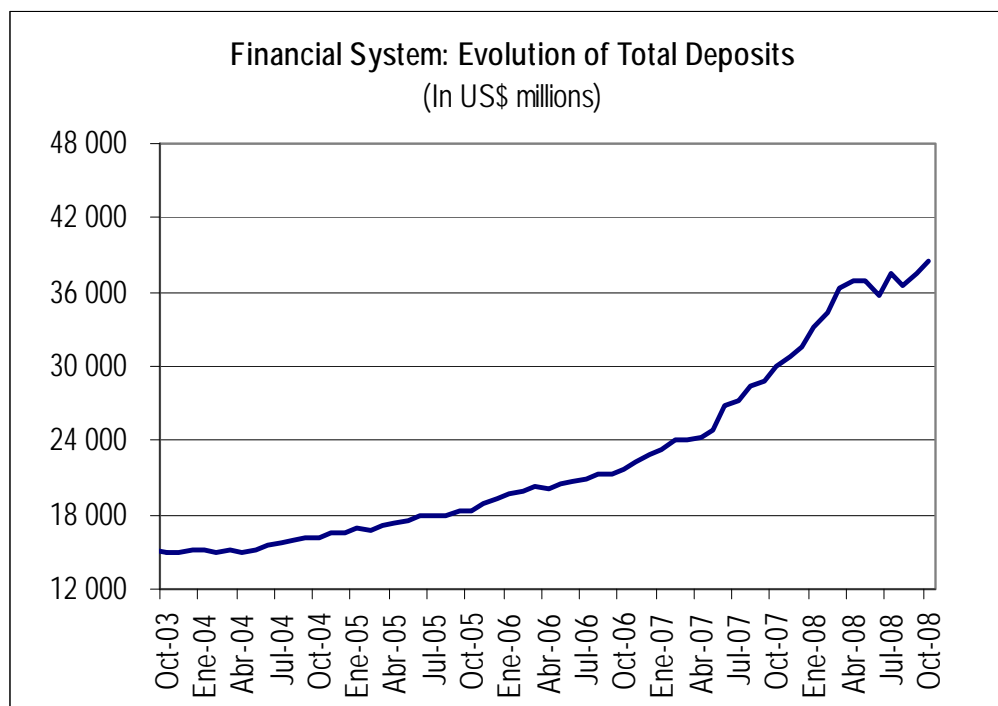
## The expansion of loans was mainly directed to finance productive activities



- At the end of October 2008, commercial loans reached a level of US\$ 18.9 billion, growing 34.1% with respect to the previous year. On the other hand, micro-credit loans reached US\$ 3.2 billion. Both types of credit represented 68.6% of the financial system's total portfolio.
- As of October 2008, the balance of consumption and mortgage loans was US\$ 6.7 billion and US\$ 3.4 billion, respectively.



## Deposits grew at a similar pace as loans



- Deposits registered an average annual growth of 15.1% in the past five years and a growth of 28.2% in the last year. This expansion was mainly explained by the dynamism of term deposits during the past years.
- In this way, the Financial System is less dependent on external credit lines than it was in the past decade.
- The balance of deposits was US\$ 38.5 billion, as of October 2008.



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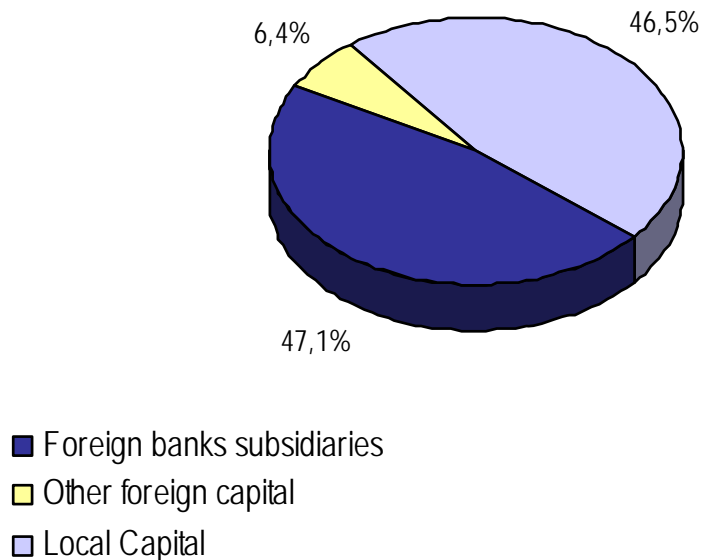


# Peruvian Banking System



## Significant presence of foreign capital in the Banking System

October 2008: Foreign participation on assets

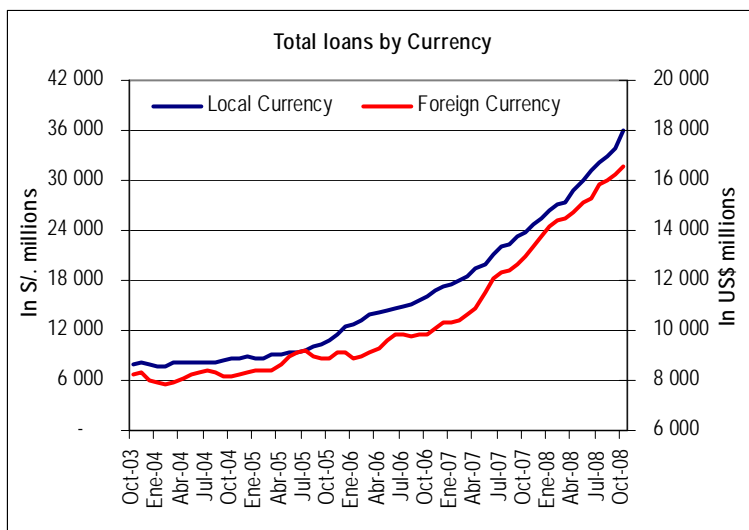


13 of 16 banking institutions operating in the Peruvian banking system have a significant presence of foreign capital.

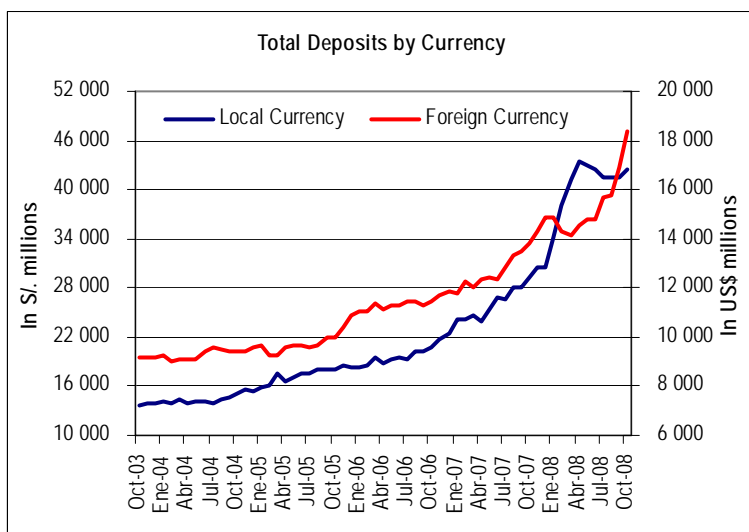
8 Peruvian banks are subsidiaries of foreign banks, like BBVA, Scotiabank, HSBC, Citibank, Santander, Deutsche.



## Loans and deposits of the Banking System registered an important growth



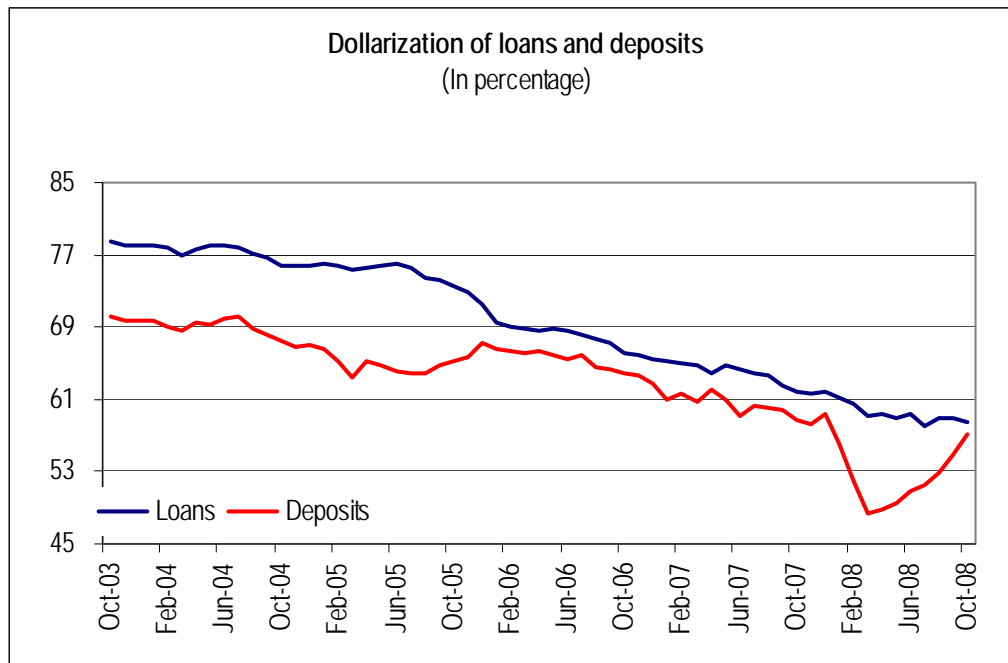
- Loans in both local and foreign currency steadily increased, reaching at the end of October 2008 a balance of S/. 36.1 billion and US\$16.5 billion, respectively.



- Deposits in both currencies have had the same performance. At the end of October 2008, the balance of deposits in local and foreign currency registered S/. 42.5 billion and US\$ 18.4 billion, respectively.



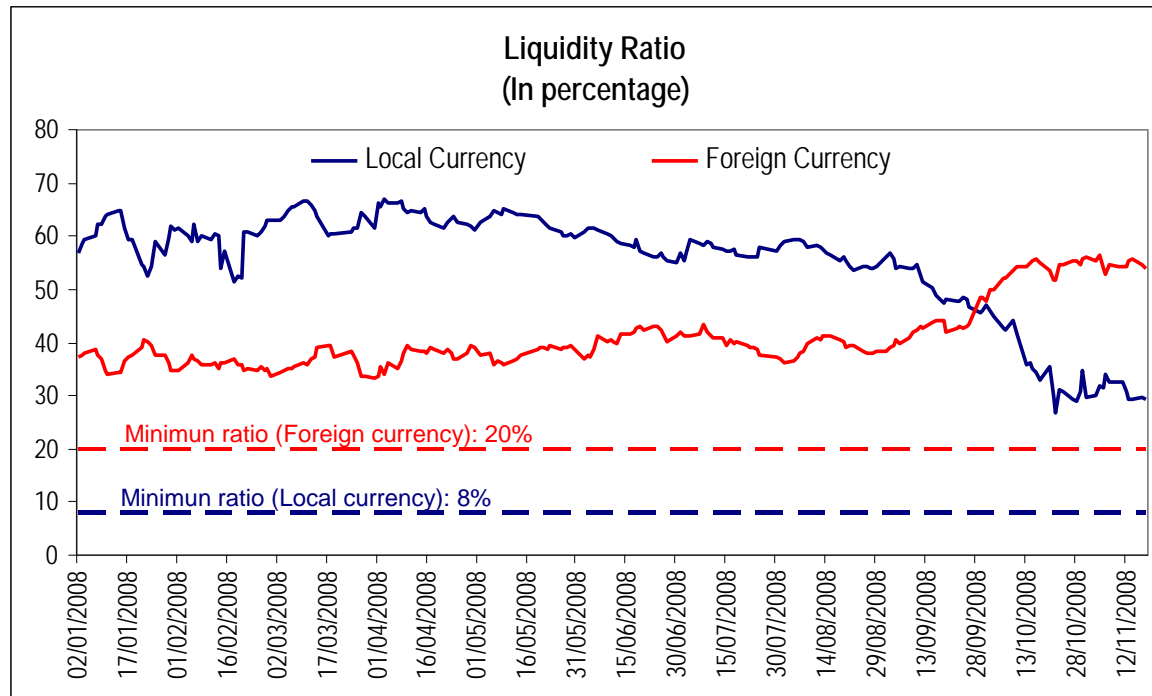
## The dollarization of the Banking System shows a downward trend



- During the past five years, the dollarization ratios of both loans and deposits showed a downward trend, explained by a larger growth registered in loans and deposits in local currency.
- This de-dollarization process was accelerated by the expectations for local currency appreciation, returning in the last months to its long run trend.
- At the end of October 2008, the dollarization ratio of the banking system's loans reached a level of 58.6% while the corresponding ratio for deposits was 57.2%.



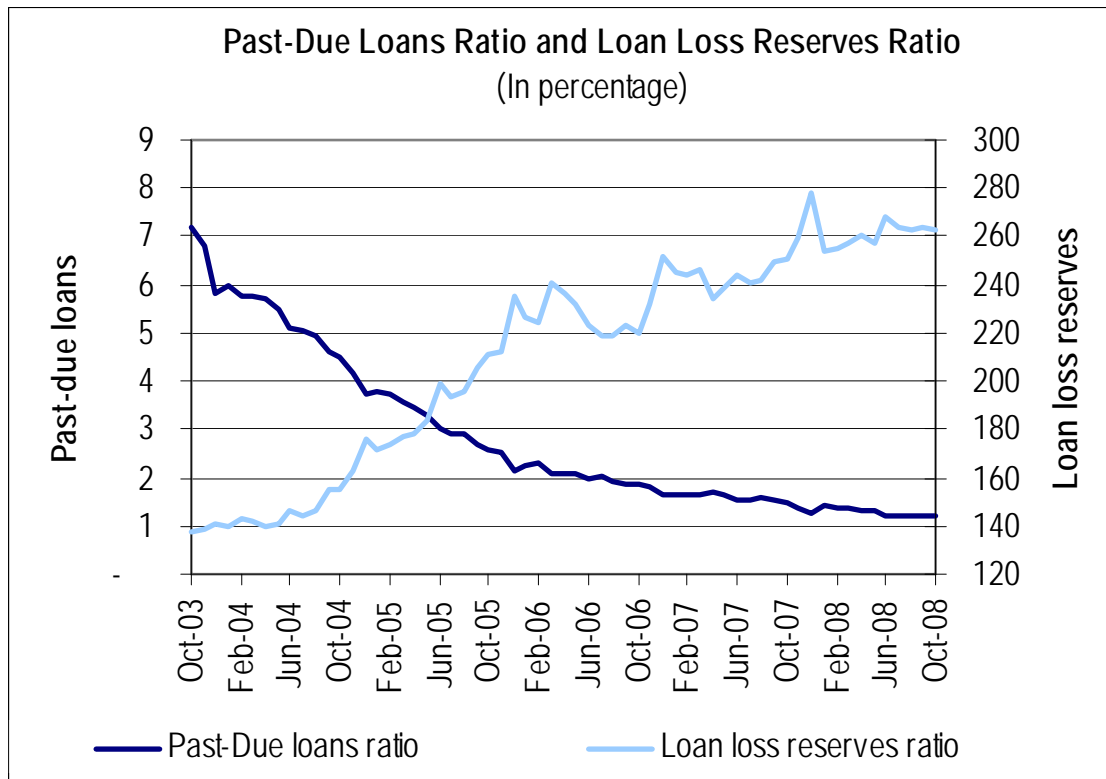
## Liquidity ratios of the Banking System are above the minimum requirements



- Liquidity ratios are above minimum requirements, which are 8% for local currency and 20% for foreign currency.
- The average liquidity ratio in local currency was 36%, while the average ratio for foreign currency registered a level of 54% as of October 2008.



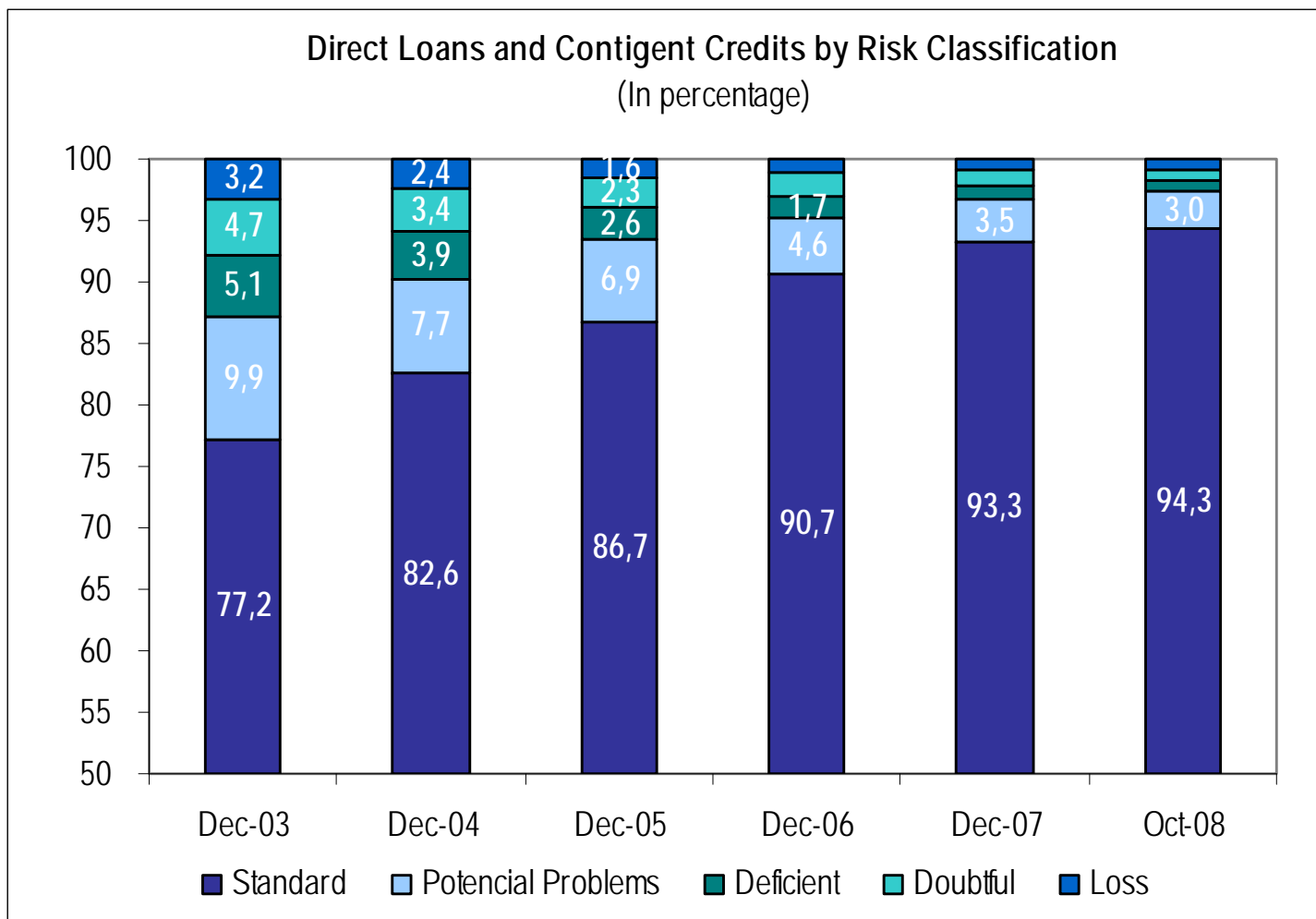
## Past-due loans keep a downward trend and reserves coverage for non-performing loans improves significantly



- The past-due loans ratio of the Banking System went down from 7.18%, registered in October 2003, to 1.19% in October 2008. This improvement in the portfolio quality is mainly explained by the significantly economic growth.
- In addition, reserves for loan losses was 2.6 times the value of past due loans.

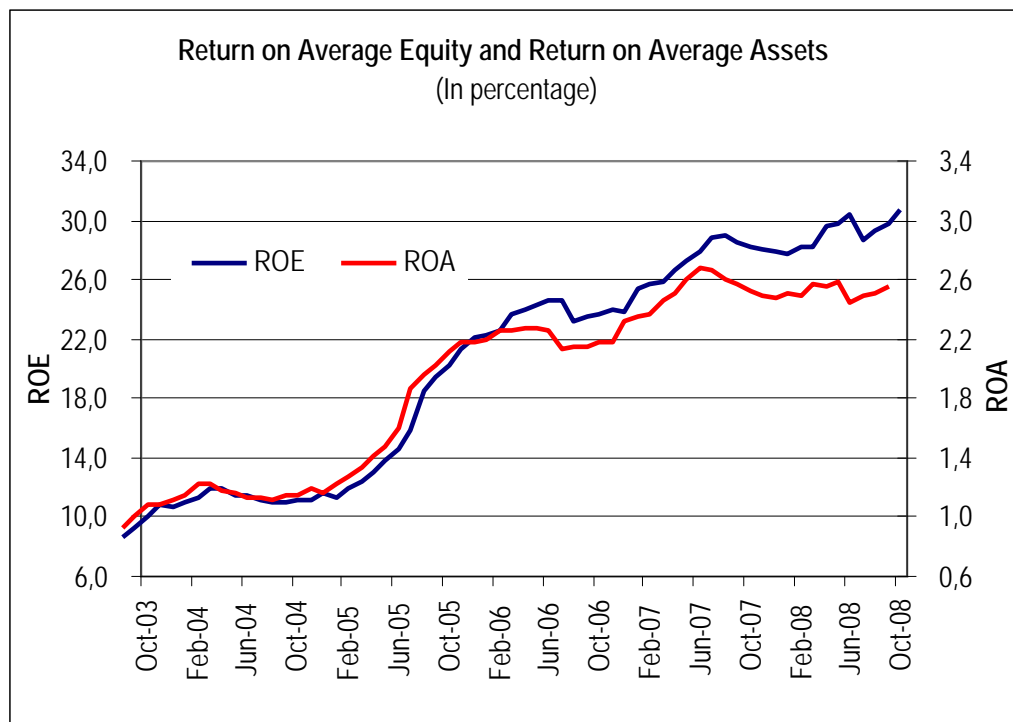


# Standard loans of the Banking System represent more than 94% of the portfolio





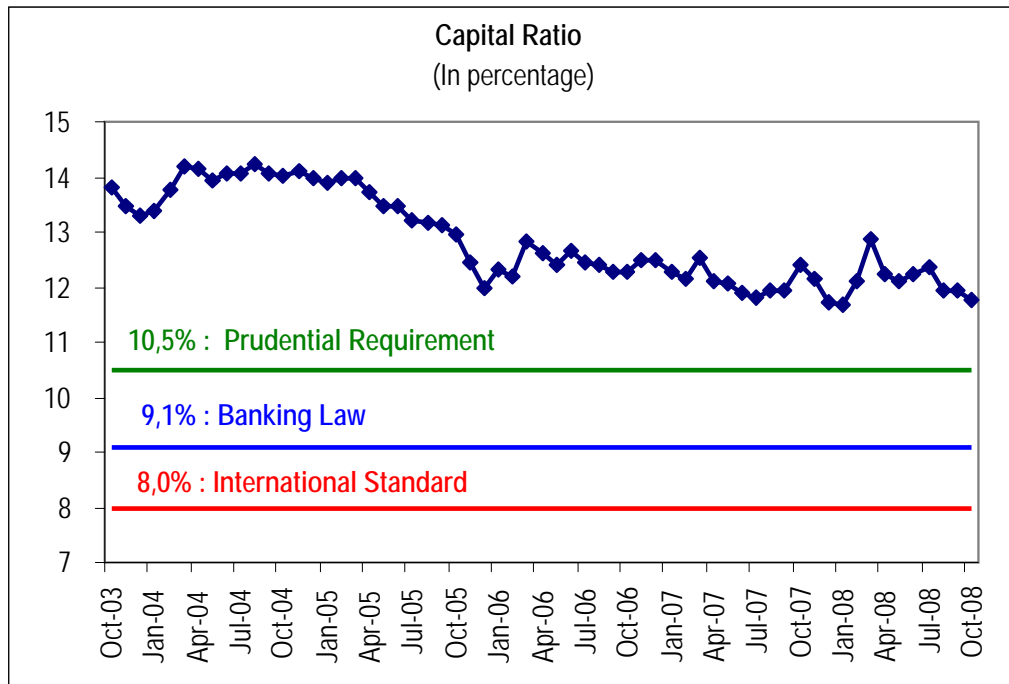
## Profitability ratio of the Banking System remains high



- At the end of October 2008, the return on average equity (ROE) of the Banking System registered a level of 30.74%, while the return on average assets (ROA) reached a level of 2.56%.



# Banks Capital Ratio is well above international standards set by Basel Committee



- The capital ratio of the Banking System has maintained in a stable level in the past three years.
- As of October 2008, the capital ratio was 11.8%, above the minimum ratio required by the Peruvian Banking Law (9.1%), as well as the international standard (8%).
- The prudential minimum requirement of the SBS for banks is 10.5% of their risk weighted assets.



## Recent regulatory changes in the Financial System

The SBS has recently issue the following regulation:

- On January 2005: regulation for a prudential administration of the foreign exchange credit risk.
- On September 2006: prudential standards for retailers for the administration of the risk of over-indebteness (updated on August 2008).
- On January 2008: regulation for the integral risk management.
- On November 2008: regulation requiring additional provisions applied to standard loans during the expansive phase of the economic cycle. The accumulation and disaccumulation rule is defined as a function of the average GDP growth. It is important to mention that a significant amount of the required additional provisions have already been constituted by banking institutions.

In addition, the SBS is adapting its regulation to allow the new capital requirements for credit, market and operational risk, according to Basel II.



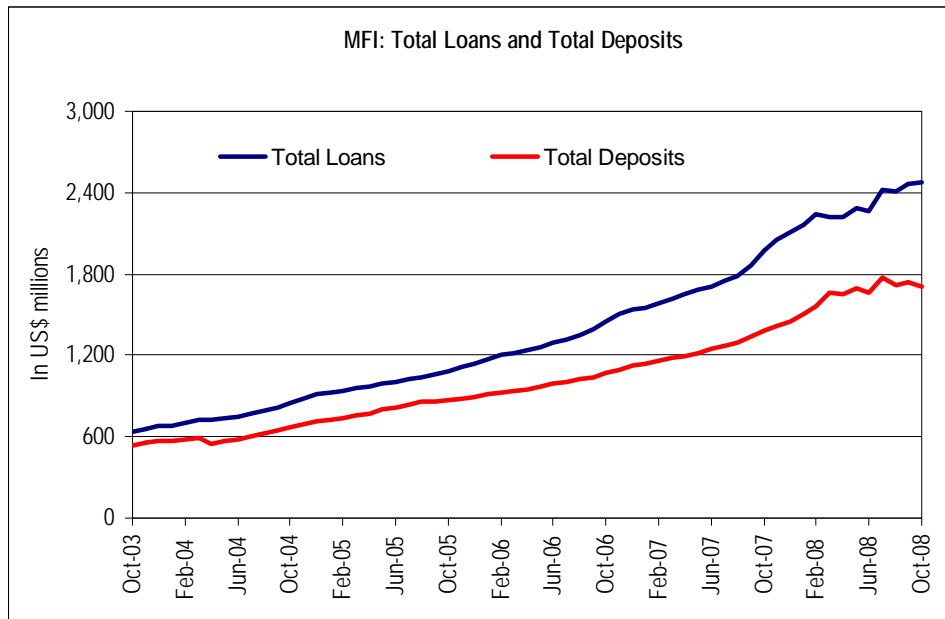
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# Non Banking Microfinance Institutions



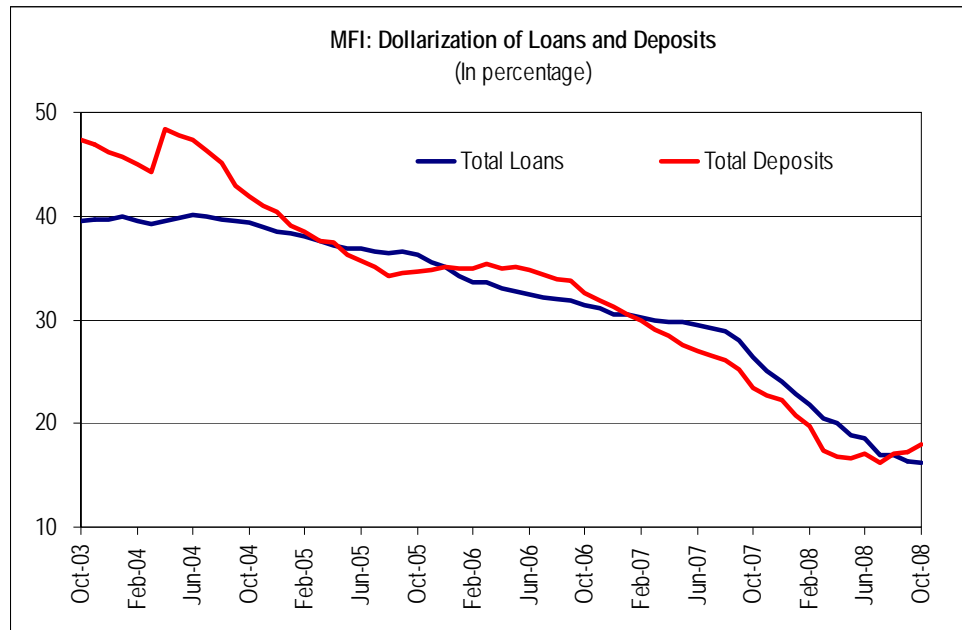
## Sustained growth of loans and deposits



- Microfinance Institutions (MFI) gross loans registered an annual rate of growth of 25% during the last year, reaching a total balance of US\$2 471 million, as of October 2008.
- Likewise, the rate of growth of total deposits was 23% with respect to the previous year, registering a balance of US\$1 704 million as of October 2008.



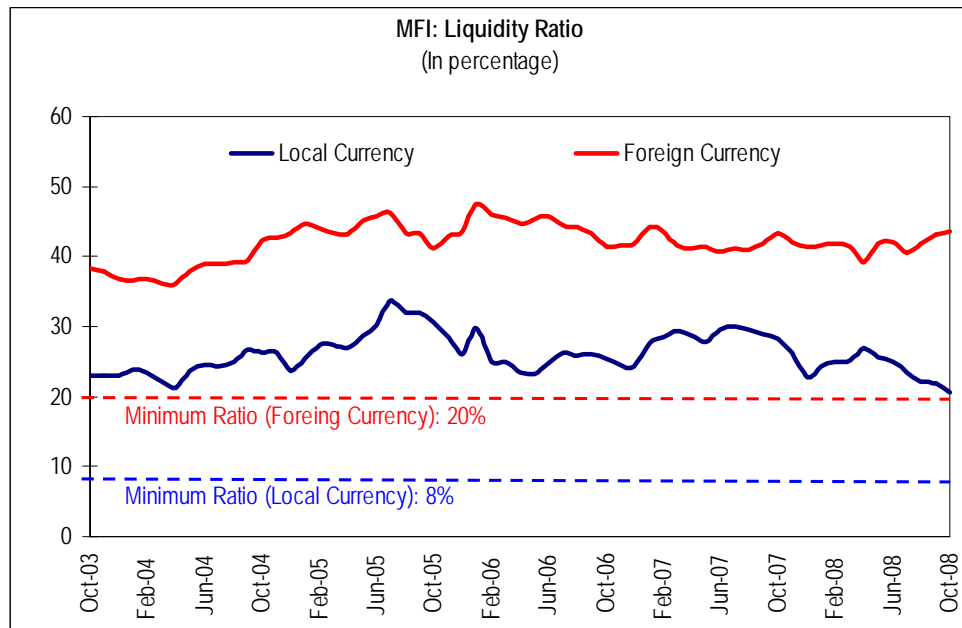
## Dollarization of loans and deposits of microfinance institutions is small, with a decreasing trend



- Non banking microfinance institutions perform their operations basically in local currency.
- By the end of October 2008, the proportion of gross loans and deposits in foreign currency was around 17%.



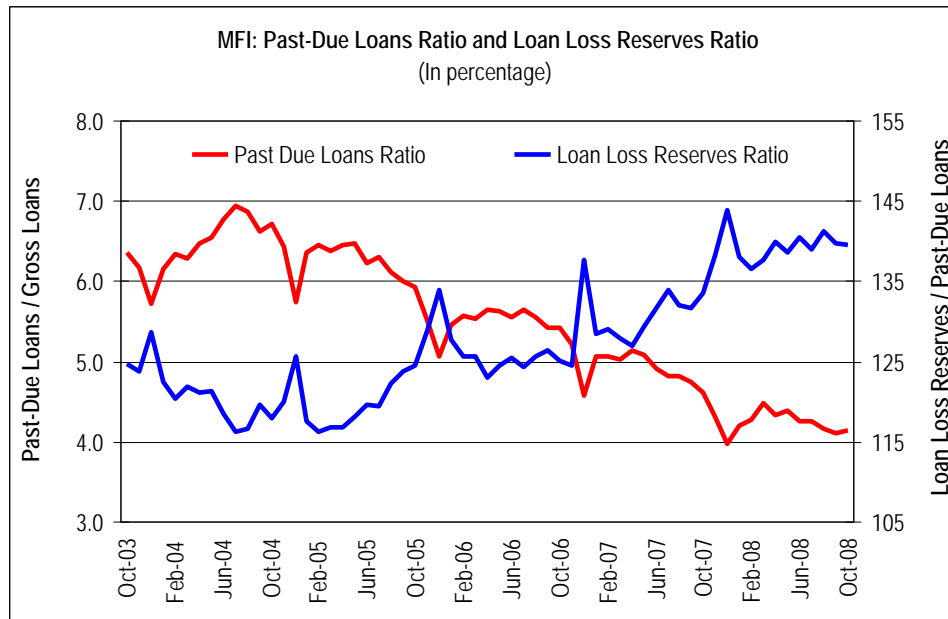
## Comfortable levels of liquidity, above minimum required



- The liquidity ratio in local currency of microfinance institutions slightly decreased during the last year, reaching 20.6% by the end of October 2008, still above the minimum required of 8%.
- On the other hand, microfinance institutions liquidity ratio in foreign currency increased in the last year, registering 43.5% in October 2008, also above the 20% minimum ratio required by regulation.



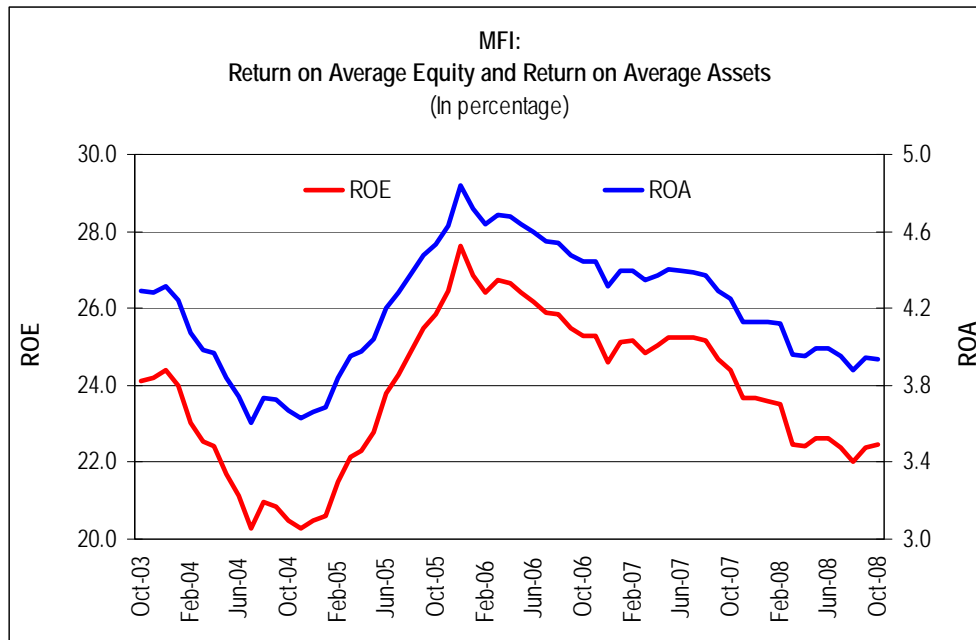
# The quality of loan portfolio continuously improves along with the reserves for non performing loans



- MFI past-due loans as a percentage of gross loans showed a downward trend, registering a value of 4.2%, by the end of October 2008.
- On the other hand, microfinance institutions loan loss reserves as a percentage of past-due loans has increased, reaching a value of 139.5%, as of October 2008.



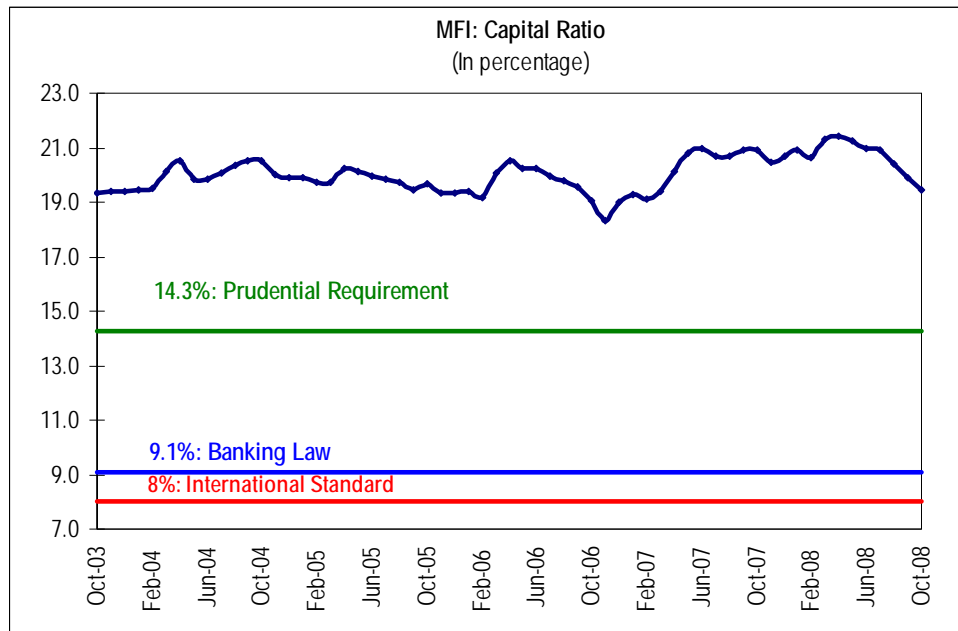
## Profitability levels remain high, slowing down over time



- The microfinance institutions return on average equity reached a level of 22.48% by the end of October 2008, while the return on average assets was 3.94% by the same date.



## Capital ratio remains high, well above international standards



- By the end of October 2008, microfinance institutions capital ratio reached a value of 19.45%, above the minimum capital ratio of 9.1% required by law, and the prudential requirement of 14.3%.
- Furthermore, this ratio is well above the international standard of 8%.



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# Private Pension System



# Characteristics of the Pension Funds System

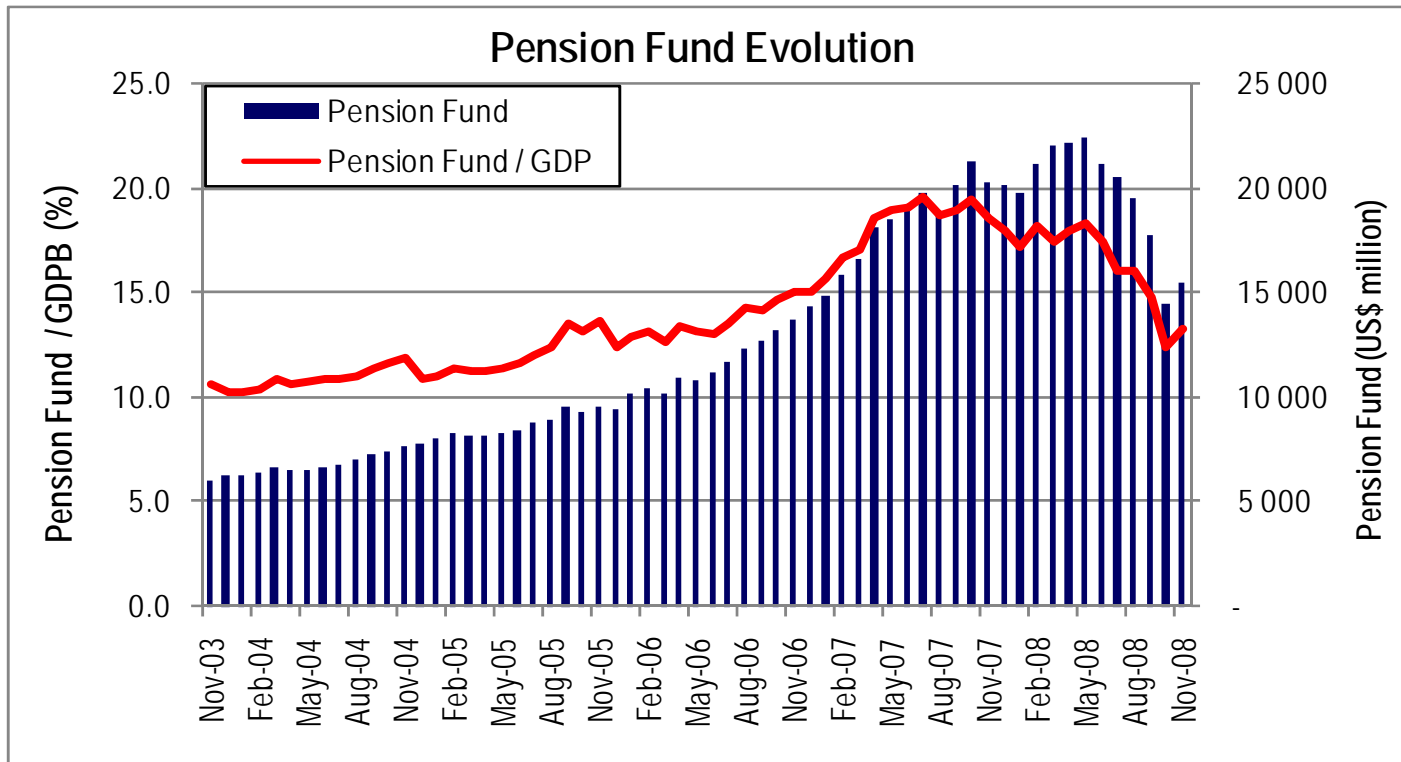
1. The Private Pension System (PPS) was created in 1993 and it is based on individual accounts with defined payments.
2. In Peru, the Government sponsored pay-as-you-go system and the PPS coexist.
3. Since December 2005, affiliates can choose among three types of funds (multi-fund system), depending on their returns expectations and risk aversion:
  - Type 1 Fund or capital protection (conservative)
  - Type 2 or mixed (balanced)
  - Type 3 or Capital appreciation (growth)
4. The management fee and the disability and survival insurance are calculated as a proportion of wages.



## Since 2003, pension fund annual growth has averaged 20.8%

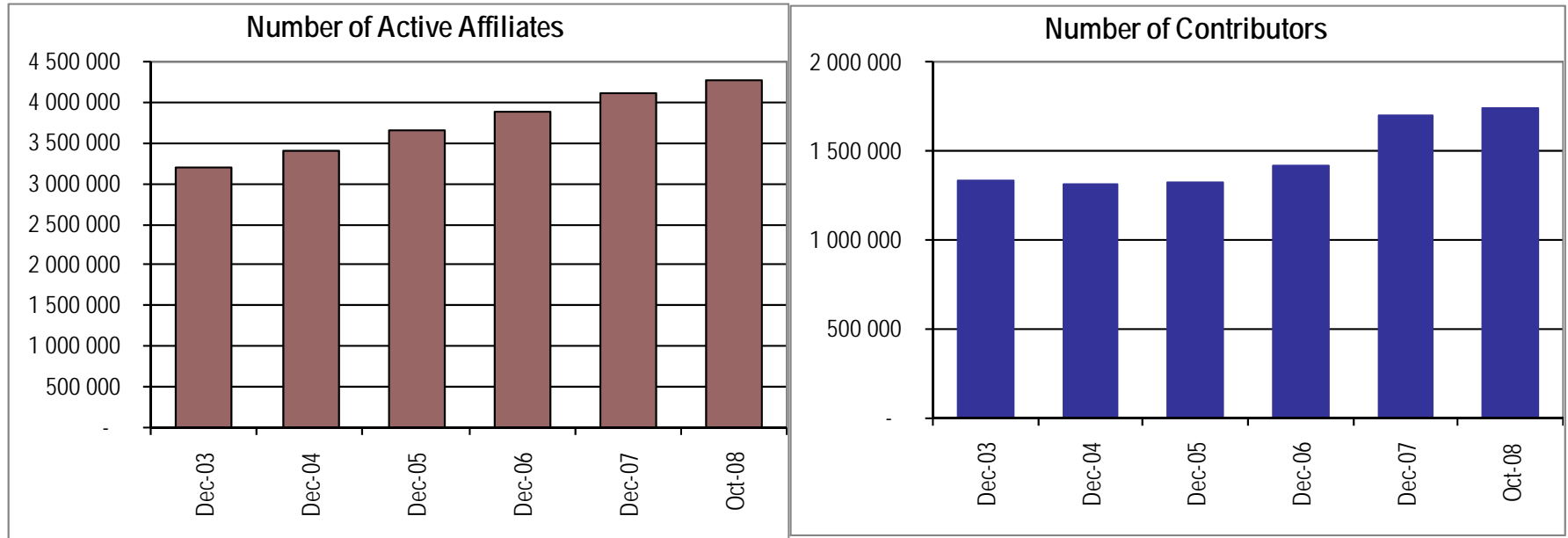
As of November 2008, the pension fund reached US\$ 15 430 million, representing 13.2% of GDP.

Between December 2007 and November 2008, the pension fund decreased 23.4%, as a result of the declining profitability of investments in local and foreign equities, generated by the crisis in international financial markets. However, it has recovered in the last month growing by 6.8%





## Number of Affiliates and Contributors have been growing steadily



Since 2003 active affiliates have been grown by 220 thousand affiliates per year. As of October 2008, there was 4.3 million active affiliates, representing 33.1% of the labor force.

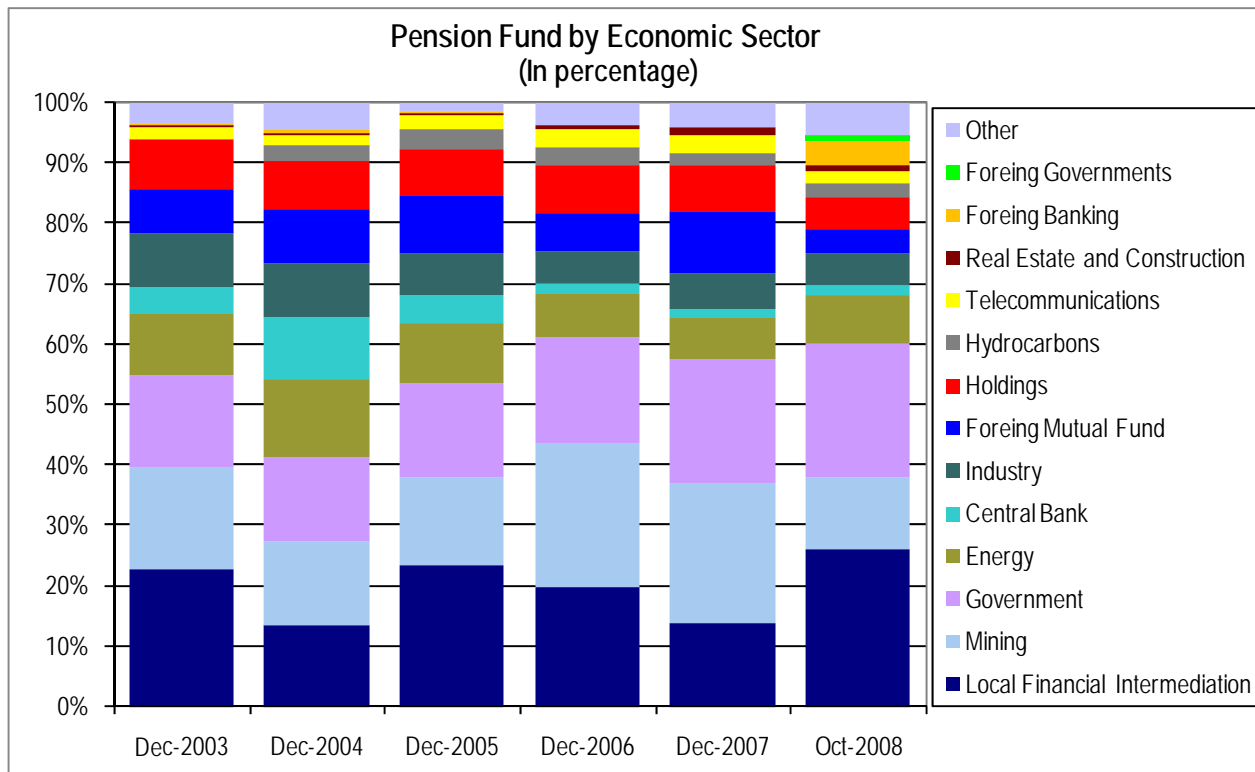
As of October 2008, there was 1.7 million contributors. This figure has been increasing steadily as a result of the recent economic boom, improving the ratio of contributors / labor force from 11.8% in December 2003 to 13.5% in October 2008.



# Diversification of pension fund has increased

The pension fund finances several economic sectors, using a wide variety of financial instruments, achieving both greater portfolio diversification and capital market development.

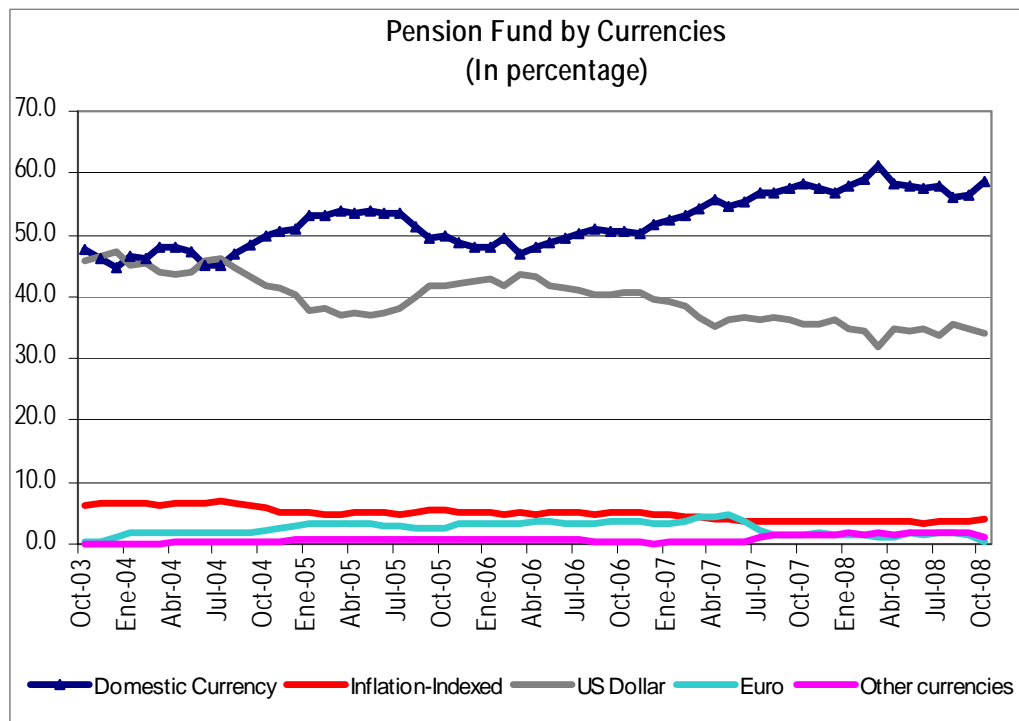
In October 2008, the pension fund was invested in thirteen local economic sectors and six different foreign instruments. The main sectors in which the pension fund portfolio is invested are financial intermediation, government, mining, energy and industry.







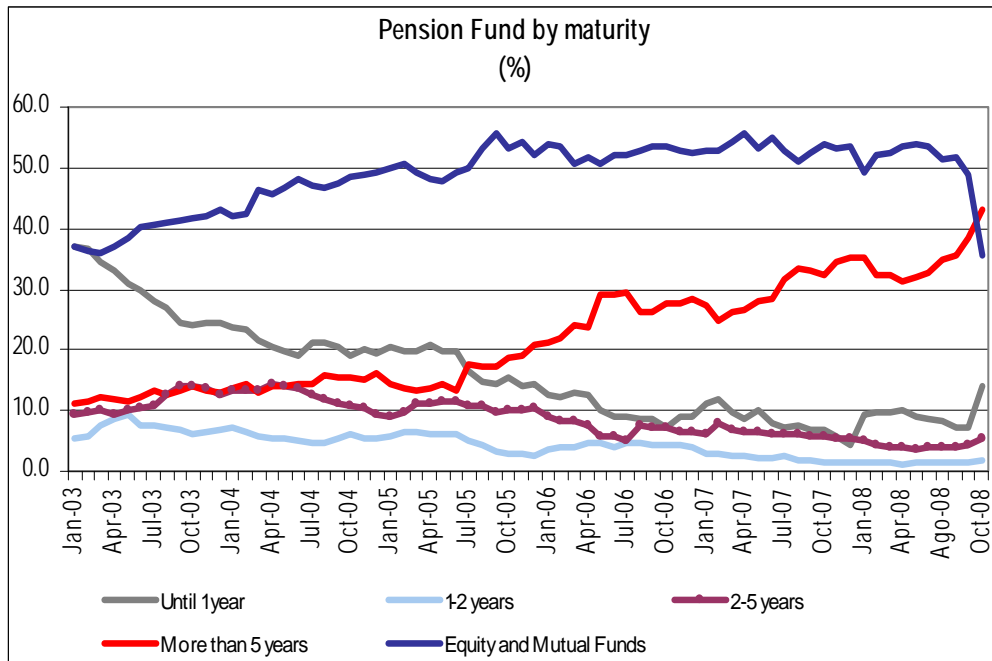
## Investments in local currency show rising trend



- The pension fund's portfolio is invested in thirteen different currencies, with an increasing trend of investments in local currency.
- As of October 2008, the main currencies in which the pension funds were invested are: Domestic currency (58.8%), US Dollar (34.1%), Inflation-indexed (4.0%) and Euro (0.5%).



## Pension Fund Structure by Maturity

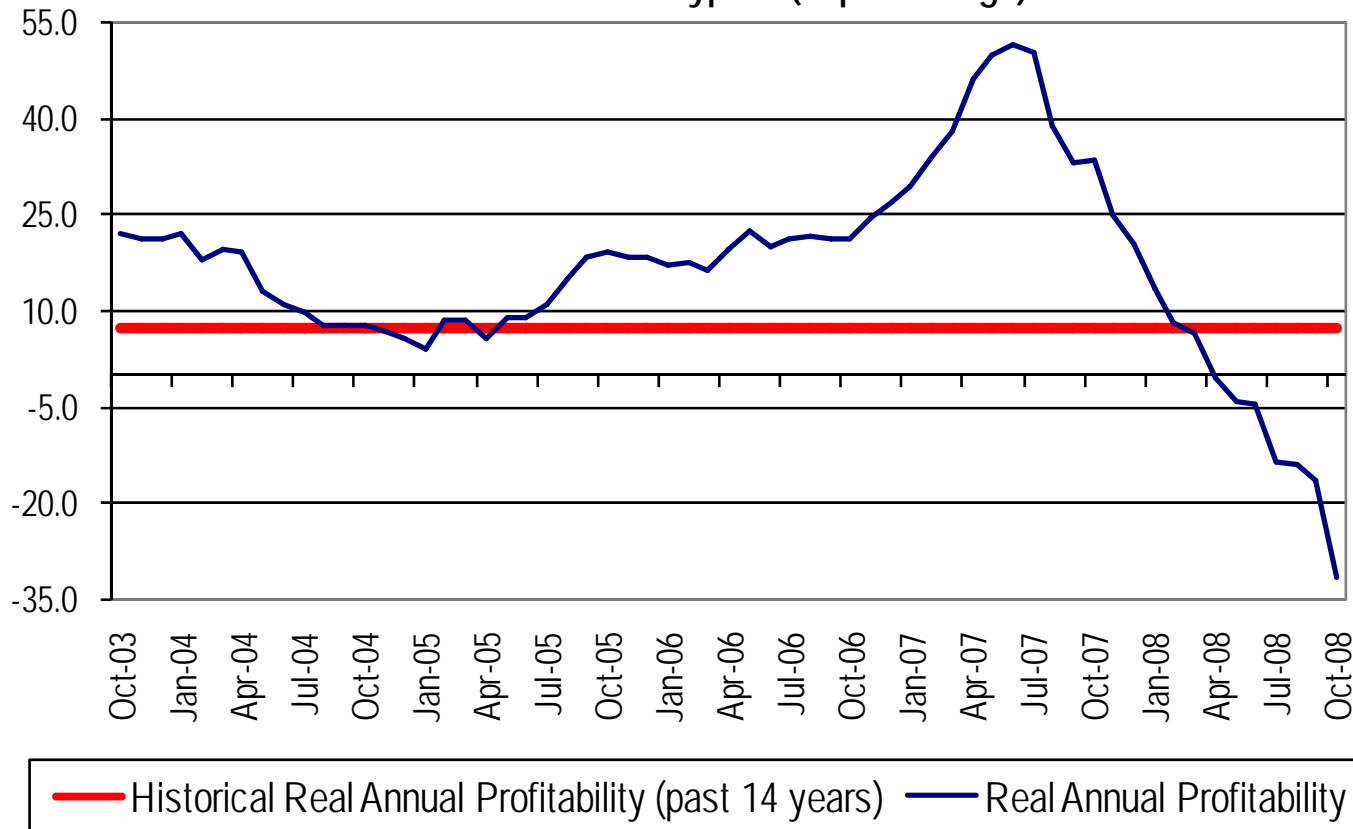


- As of October 2008, long term bonds (more than 5 years) have the largest participation in the pension fund portfolio (43.1%), while equity instruments and mutual funds are the second biggest (35.6%).



# Despite the effects of the international crisis over the pension fund short term returns, the average long term real annual return is 7.2%

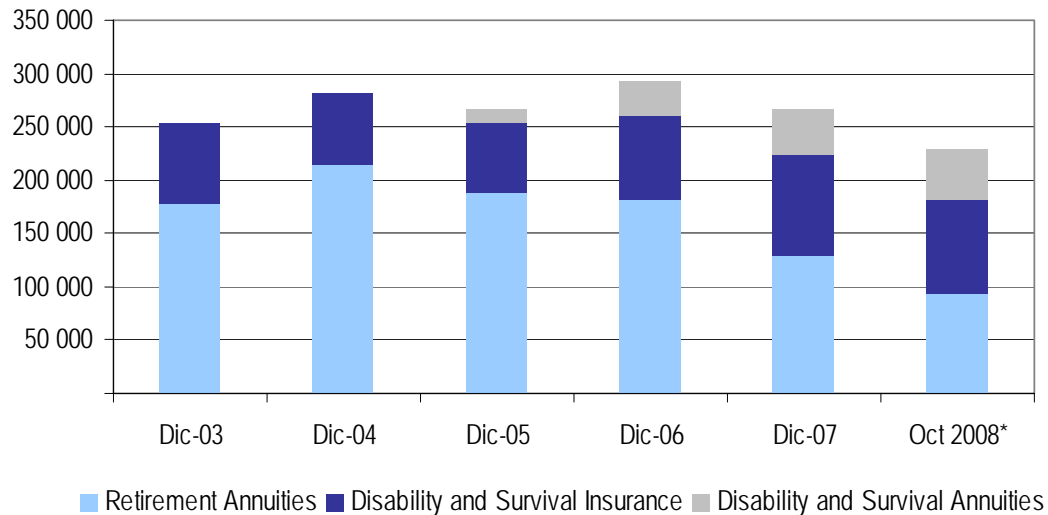
Real Annual Profitability and Historical Real Annual Profitability of Pension Fund Type 2 (In percentage)





# The Private Pension Funds and its links with the Insurance Market

Insurance Premiums linked to PPS  
(US\$ thousands)



\* January - October 2008

- The increase of contributors (consequence of economic growth) has promoted the increment of insurance premium collection of Disability and Survival insurance.



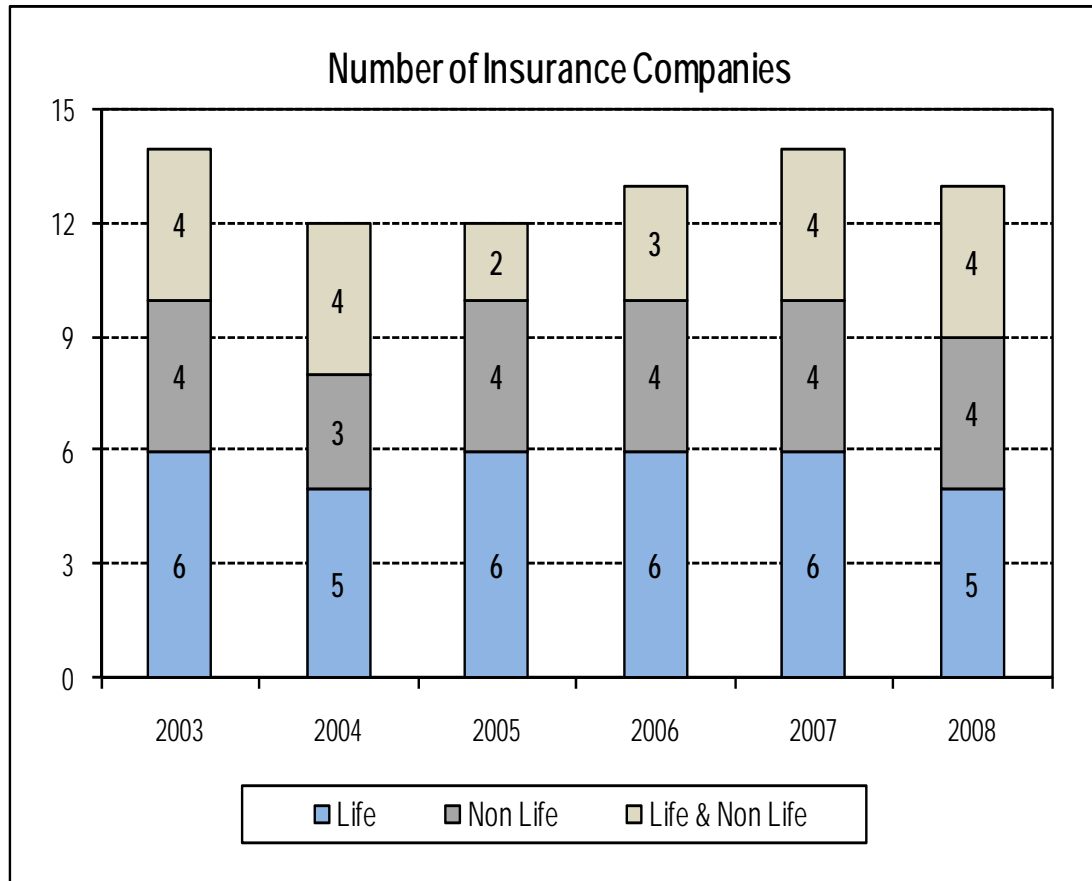
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# Insurance System



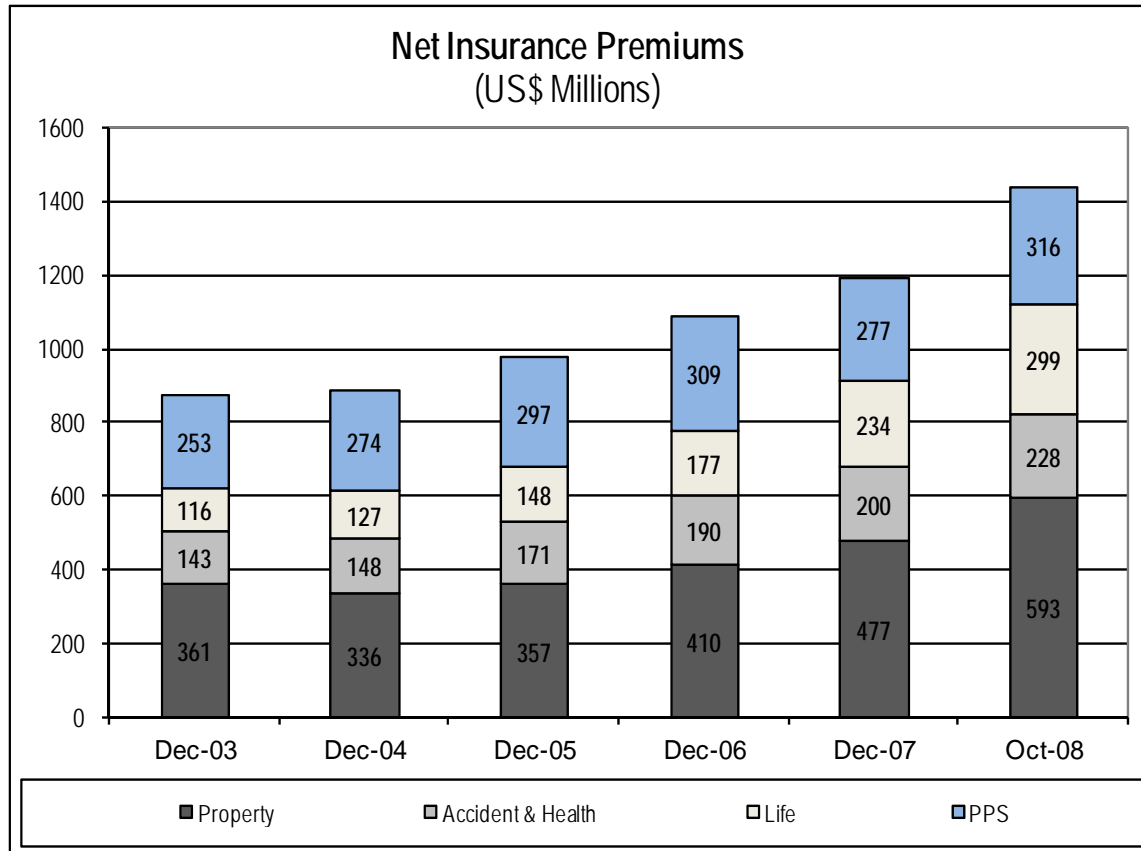
## There are 13 entities in the Insurance System



- As of October 2008, there were 13 companies. Four of them operate in both life and non-life risks, four exclusively in non life and five specialized in life risks.
- Furthermore, there are six companies that have more than 50% equity stake owned by foreign shareholders.



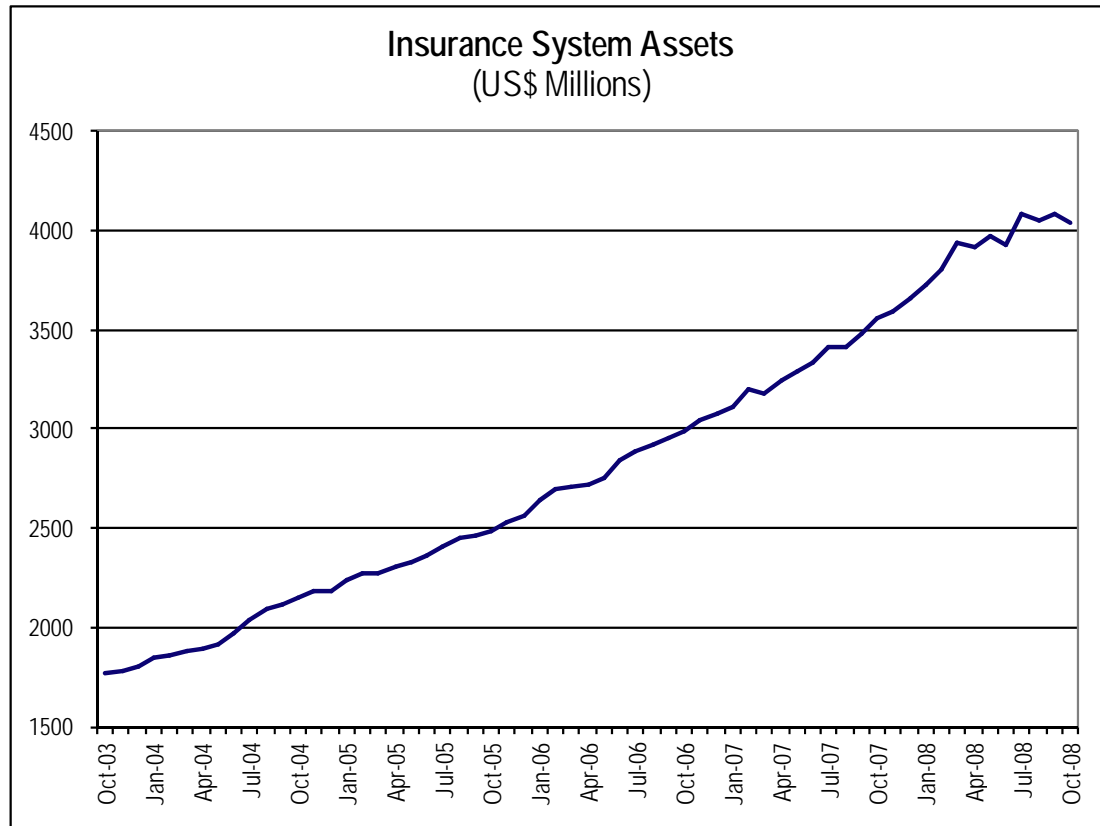
## Insurance Premiums are still growing



- Insurance premiums during the period 2003-2008 have grown on average 11.1% per year. As of October 2008, annualized premiums have reached US\$ 1 435 million, increasing by 24.7% respect to the previous year.



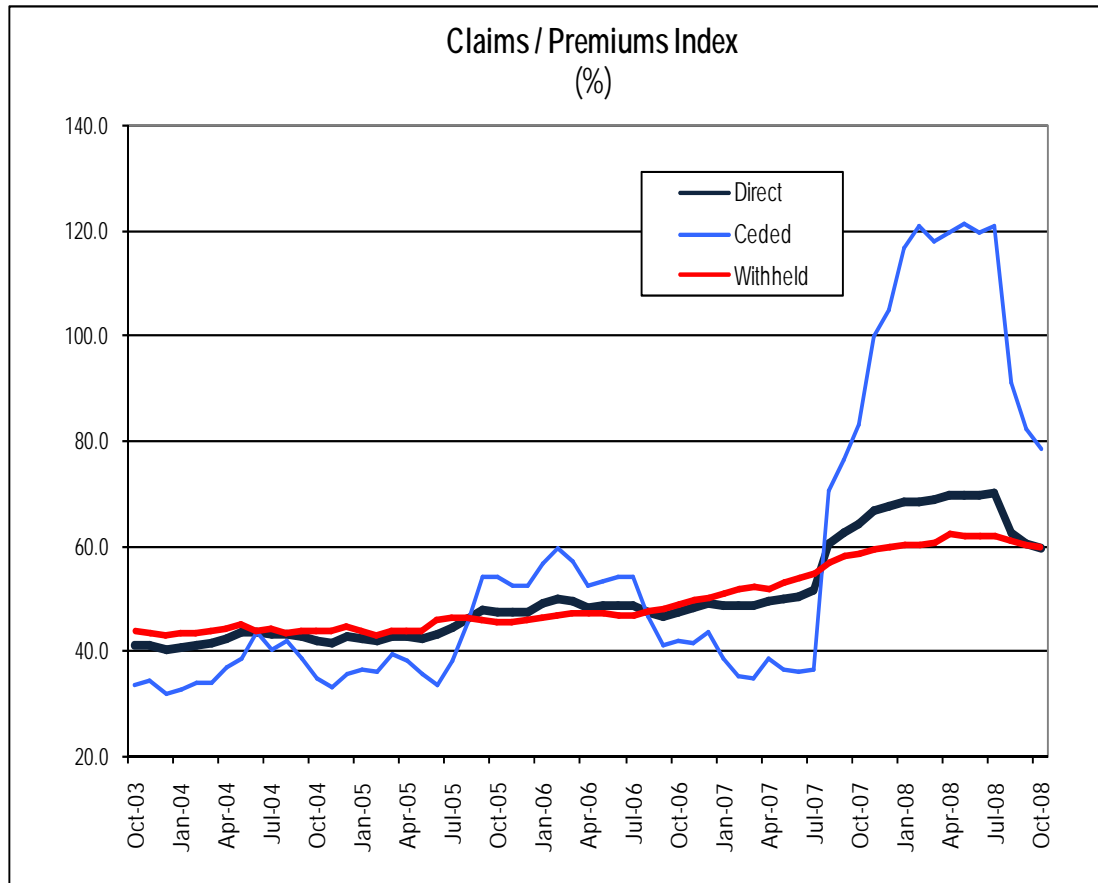
## Assets of the insurance companies have grown steadily



- Assets have increased on average 18% per year since 2003. As of October 2008, assets reached US\$ 4 038 million.



## Claims / Premiums Index



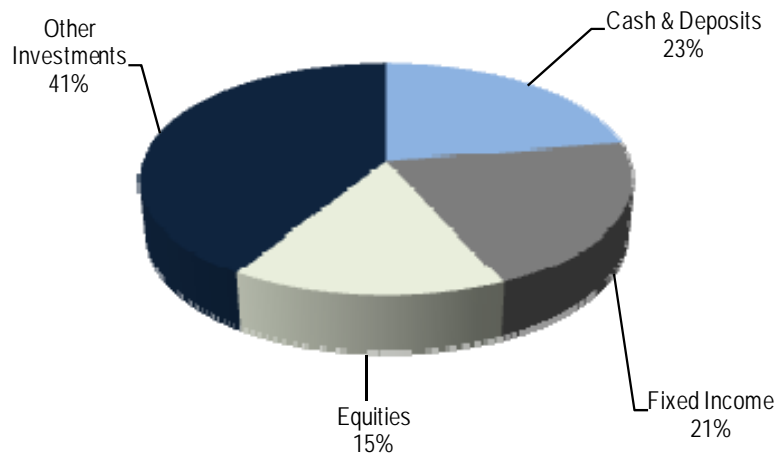
- Claims/Premiums Index has had a relatively stable path until mid 2007, when the ceded index increased significantly due to the earthquake occurred on August 15, 2007.
- It is worth mentioning that Peruvian Insurance companies tend to reinsure 55% of non-life risks and to keep 95% life risks without reinsurance.



## Life Insurance Companies invest mainly in fixed income securities

As of September 2008, 15% of investment portfolio non life insurance companies were invested in equities and 21% in fixed income. On the other hand, life insurance companies invest mostly in fixed income, representing 76% of their total portfolio.

Non Life Insurance Group



Non Life Insurance Group

