

CREDICORP LTD  
Form 6-K  
February 04, 2011

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 6-K

Report of Foreign Private Issuer  
Pursuant to Rule 13a-16 or 15d-16 of the  
Securities Exchange Act of 1934

For the month of February 2011

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CREDICORP LTD.  
(Exact name of registrant as specified in its charter)

Clarendon House  
Church Street  
Hamilton HM 11 Bermuda  
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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CREDICORP  
Ltd.

Fourth Quarter 2010 Results

Lima, Peru, February 03, 2011 - Credicorp (NYSE:BAP) announced today its unaudited results for the fourth quarter of 2010. These results are reported on a consolidated basis in accordance with IFRS in nominal U.S. Dollars.

HIGHLIGHTS

- Credicorp reported solid 4Q10 earnings of US\$ 129.3 million, though substantially lower than the strong 3Q and 2Q net results, both of which were significantly boosted by extraordinary earnings from the sale of securities.
- Business performance was strong and maintained its growth trend throughout the year as evidenced by net interest income (NII) increasing 5% from 2Q to 3Q and 4% from 3Q to 4Q, reaching US\$ 282 million this 4Q10. Such robust growth is also evidenced by annual results which show a significant net earnings expansion of about 22% reaching US\$ 571.3 million, despite lower extraordinary income in 2010 vs. 2009.
- Furthermore, the recovery of economic activity in the Peruvian market is today unquestionable and led to the strong growth of our loan book of 24.2%, with deposits also performing strongly and expanding 28.3%.
- NIM dropped in 4Q as a result of the BCRP's monetary policies which by 4Q increased funding costs, but had a stable performance for the year, as the impact of such policies and competitive & market pressures on margins and fees was delayed and/or compensated by strong business growth and rising local interest rates improving the yields on investments. Thus, NIM remained stable at 4.8% for the year.
- Non-financial income sustained its high level of 4Q and had an excellent performance for the year with fees up 20.2% for the year and gains on FX up 12.8%. No extraordinary non-recurrent gains on the sale of securities were reported in 4Q (vs. the last 2Qs of high extraordinaries), leading to a drop in non financial income for 4Q. Despite this, total non-financial income was 10.2% stronger in 2010 vs. 2009.
- An improvement of our PDL ratio to 1.46% in 4Q10 was recorded as the absolute volumes of past due loans dropped and our loan portfolio expanded. Nevertheless, our conservative internal policy on coverage and provisions, our stronger incursion into more risky segments of the business as well as regulatory changes that required more provisions led to a decision to maintain a high level of provisions, which were still 7.6% lower than those of 3Q. Therefore, reserves were only slightly lower for 2010 at 2.9% of total loans vs. 3.1% in 2009.
- The continuing good performance of the insurance business is reflected in the slightly lower though still very strong US\$ 42.5 million net premium income, which contributed to a 19.2% growth in premium contribution for the year 2010.
- After significant drops in operating costs in the 1H10, these were 3.4% up in 3Q and increased 18.2% in 4Q as a result of some typical year end increases, some additional cost stemming from the increased levels of variable remuneration of employees and investments in training & advisory services as we develop business opportunities. Nevertheless, the strong income generation led to an improvement in the efficiency ratio for the year from 42.1% to 41.2%.
- BCP's 4Q operating results also reflect solid growth in net loans of 7.8% and increase in NII of 5.1% QoQ, reflecting the higher cost of US Dollar funding, and the stronger growth of the low margin corporate loan book and large liquidity positions reducing the average yields

on total portfolio. Provisions for loan losses dropped only slightly despite the improvements in portfolio quality and operating costs revealed a strong year-end increase of 16.3% QoQ. Furthermore, a slight revaluation of the US currency internationally also affected our open soles position generating a small loss instead of the larger gains posted in previous Qs. Thus, net contribution to Credicorp dropped to US\$ 99.1 million from US\$ 135.2 in 3Q. Despite this Q drop, accumulated results are very strong reaching US\$ 476.3 million net earnings for 2010 and US\$ 464.4 million earnings contribution, which reflect a 19.9% earnings growth for the year.

- ASHC's contribution to Credicorp this 4Q was up by 10.4% to US\$ 11.7 million following a good evolution of its asset management business.
  - The insurance business also shows a strong performance reporting for the 4Q net earnings at the same high level of 3Q of US\$ 16.5 million and a 10.8% higher net income of US\$ 68.3 million for the full year. However, the acquisition of ALICO's shares of Pacifico boosted PPS's income contribution to Credicorp to US\$ 16.0 million for 4Q, 52.9% higher than the previous Q.
  - Prima AFP maintained good business results and benefitted from a tax reversal due to a change in IFRS accounting that led to US\$ 8.0 million net income contribution for 4Q10. Accumulated results for the year also reveal a 22.6% increase in contribution to US\$25.5 million.
  - Overall, Credicorp had a good 4Q which contributed to the excellent income generation in all businesses reaching loan book growth of 24.2% for the year, 22.7% ROAE, a 1.46% PDL ratio and an improved efficiency ratio of 41.2% for the year 2010.
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## I. Credicorp Ltd.

### Overview

Credicorp reported solid 4Q10 earnings of US\$ 129.3 million, though substantially lower than the strong 3Q and 2Q net results, both of which were significantly boosted by extraordinary earnings from the sale of securities and translation results. This excellent business result for the 4Q contributed to the total net income after minority holdings reported by Credicorp for the year which reached US\$ 571.3 million. These results evidence robust net earnings expansion of about 21.6%, despite lower extraordinary income in 2010 vs. 2009.

The recovery of economic activity in the Peruvian market is today unquestionable and led to the strong growth in our loan book of 24.2%, with deposits also performing strongly and expanding by 28.3%. Only in 4Q net loans were up 7.5% reflecting strong business activity. This growth stems from the strong corporate activity which made wholesale banking become the star performer in terms of growth for the year 2010, growing 8.3% QoQ and 29.9% YoY. On the retail banking side, the best performers were SME / PYME lending which grew 10.1% y 28.3%, and mortgage lending expanding 6.6% and 20.5% quarterly or yearly respectively.

Following such strong loan book expansion, business performance was robust this 4Q and maintained its growth trend throughout the year as evidenced by net interest income (NII) increasing 5% from 2Q to 3Q and 3.9% from 3Q to 4Q, reaching US\$ 282.1 million this 4Q10. These improvements in NII reflect however the pressure on funding cost stemming from the restrictive monetary policy of the central bank which led to increases in interest paid on time deposits and increases in reserve requirements, and from measures taken to reduce the pressure on the exchange rate for the local currency, which in turn also generated some scarcity of the US currency. This, plus the strong growth of the wholesale portfolio with tighter margins and high levels of liquidity invested at the Central Bank with even smaller margins affected NIM for 4Q and led to a tighter NIM for the period of 4.6%. Nevertheless, overall NIM for the year remained flat at 4.83%, since the funding cost of deposits was significantly lower still for the year vs. 2009 and could compensate the negative pressure of the stronger expansion of the low margin corporate business and high liquidity positions.

A further improvement of our PDL ratio to 1.46% in 4Q10 was recorded as our loan portfolio grew at the above mentioned rates, and the absolute volumes of past due loans dropped again. Nevertheless, our conservative internal policy on coverage and provisions, as well as regulatory changes that required more provisions –including the pro-cyclical provisions- led us to maintain a high level of provisions. Thus reserves for loan losses reached 2.9% of our loan book vs. 3.1% in 3Q, while coverage increased to 198.2% from 193.1%.

Non-financial income had rather a flat performance with fee income staying at the same high levels of the previous Qs and gains on FX transactions up 10.3%. The extraordinary non-recurrent gains on the sale of securities in the previous 2 Qs have a distorting effect on non financial income and the bottom line results.

The insurance business also performed well with income from net insurance premiums up 5.2%, but also a significant increase in claims that led to a 3.9% drop in total quarterly operating income contributed by the insurance business to Credicorp.

After two consecutive QoQ drops in operating costs in the 1H10, these were 3.4% up in 3Q and increased even further by +18.2% in 4Q. This was the result of some typical year-end increases in administrative costs, some additional cost stemming from the increased levels of variable remuneration of employees provisions for our incentive programs and investments in training & advisory services as we develop business opportunities. Nevertheless, the strong income generation led to an improvement in the efficiency ratio for the year from 42.1% to 41.2%.



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| Credicorp Ltd.<br>US\$ 000               | Quarter<br>4Q10 | Quarter<br>3Q10 | 4Q09       | Change %<br>QoQ YoY |         | Year ended<br>Dec 10 | Year ended<br>Dec 09 | Change %<br>Dec 10 / Dec 09 |
|--|-----------------|-----------------|------------|---------------------|---------|----------------------|----------------------|-----------------------------|
| Net Interest income                      | 282,131         | 271,438         | 237,963    | 3.9%                | 18.6%   | 1,057,587            | 891,918              | 18.6%                       |
| Net provisions for loan losses           | (48,304)        | (52,303)        | (44,044)   | -7.6%               | 9.7%    | (174,682)            | (163,392)            | 6.9%                        |
| Non financial income                     | 191,866         | 193,987         | 174,124    | -1.1%               | 10.2%   | 750,215              | 680,866              | 10.2%                       |
| Insurance premiums and claims            | 42,498          | 44,220          | 45,029     | -3.9%               | -5.6%   | 164,721              | 138,225              | 19.2%                       |
| Operating expenses                       | (287,444)       | (243,281)       | (260,064)  | 18.2%               | 10.5%   | (1,003,744)          | (898,639)            | 11.7%                       |
| Operating income (1)                     | 180,747         | 214,060         | 153,008    | -15.6%              | 18.1%   | 794,097              | 648,977              | 22.4%                       |
| Core operating income (2)                | 180,747         | 204,423         | 153,008    | -11.6%              | 18.1%   | 759,111              | 576,250              | 31.7%                       |
| Non core operating income (3)            | -               | 9,637           | -          | -100.0%             | -       | 34,986               | 72,727               | -51.9%                      |
| Translation results                      | (7,074)         | 14,467          | 1,075      | -148.9%             | -758.2% | 24,128               | 12,371               | 95.0%                       |
| Worker's profit sharing and income taxes | (41,456)        | (62,941)        | (21,112)   | -34.1%              | 96.4%   | (214,910)            | (156,913)            | 37.0%                       |
| Net income                               | 132,217         | 165,586         | 132,971    | -20.2%              | -0.6%   | 603,315              | 504,435              | 19.6%                       |
| Minority Interest                        | 2,935           | 9,360           | 10,675     | -68.6%              | -72.5%  | 32,013               | 34,651               | -7.6%                       |
| Net income attributed to Credicorp       | 129,282         | 156,226         | 122,296    | -17.2%              | 5.7%    | 571,302              | 469,783              | 21.6%                       |
| Net income/share (US\$)                  | 1.62            | 1.96            | 1.53       | -17.2%              | 5.7%    | 7.16                 | 5.89                 | 21.6%                       |
| Total loans                              | 14,393,358      | 13,409,258      | 11,585,635 | 7.3%                | 24.2%   | 14,393,358           | 11,585,635           | 24.2%                       |
| Deposits and obligations                 | 18,085,310      | 16,652,009      | 14,091,828 | 8.6%                | 28.3%   | 18,085,310           | 14,091,828           | 28.3%                       |
| Net shareholders' equity                 | 2,838,360       | 2,689,315       | 2,316,856  | 5.5%                | 22.5%   | 2,838,360            | 2,316,856            | 22.5%                       |
| Net interest margin                      | 4.6%            | 4.8%            | 5.1%       |                     |         | 4.8%                 | 4.9%                 |                             |
| Efficiency ratio                         | 43.7%           | 39.4%           | 44.0%      |                     |         | 41.2%                | 42.1%                |                             |
| Return on average shareholders'          | 18.7%           | 24.4%           | 22.0%      |                     |         | 22.7%                | 24.1%                |                             |

|                |        |        |        |        |        |
|----------------|--------|--------|--------|--------|--------|
| equity         |        |        |        |        |        |
| PDL / total    |        |        |        |        |        |
| loans          | 1.46%  | 1.59%  | 1.59%  | 1.46%  | 1.59%  |
| Coverage ratio |        |        |        |        |        |
| of PDLs        | 198.2% | 193.1% | 192.0% | 198.2% | 192.0% |
| Employees      | 19,641 | 19,012 | 20,148 | 19,641 | 20,148 |

(1) Income before translation results, workers' profit sharing and income taxes.

(2) Core operating income = Operating income - non core operating income.

(3) Includes non core operating income from net gains on sales of securities of US\$ 43.406 million in 1Q09, US\$ 29.321 million in 2Q09, US\$ 25.349 million in 2Q10 and US\$ 9.637 million in 3Q10, registered in subsidiary BCP.

In addition to the pressures on funding costs, the absence of the substantial extraordinary gains reported in the previous Qs and the higher operating costs; the international revaluation of the US Dollar also generated a translation loss of US\$ 7.1 million (vs. the gains reported in the previous quarters given the strong local currency position) which exacerbated the drop of Credicorp's 4Q results. Thus net income reached US\$ 132.2 million, down 20.2% QoQ which resulted in net income attributable to Credicorp of US\$ 129.3 million.

The excellent business performance of Credicorp is significantly more evident looking at the performance for the full year, with operating income up by 22.4%, leading to total net income generated by Credicorp of US\$ 603.3 million, of which US\$ 571.3 million are attributable to Credicorp and represent an impressive income growth of 21.6% for the year 2010. This performance reflects as well a 22.7% ROAE, 2.2% ROAA, 4.83% NIM, 41.2% efficiency ratio and 1.46% PDL ratio with 198.2% coverage, by all means, more than satisfying results and all at the high end of expected targets.

#### Credicorp – The Sum of Its Parts

The excellent evolution of Credicorp's businesses this 4Q10 is again somewhat hidden by different elements, but looking at the individual businesses and especially at year end results, the excellence of its performance becomes evident.

There is today little doubt about the strength of the growth cycle that has started again in the country, which has not only reactivated loan growth, but further increased the good levels of income at the asset management subsidiaries and spurred growth in insurance activity, leading to consistently strong numbers.

The drop in BCP's 4Q results disguises the strong business evolution that resulted in a 7.6% loan book growth for the Q and 23.8% for the year. The elements that explain the drop in the 4Q10 like the high level of provisions and higher operating costs had in fact a modest expansion when looking at the full year, since provisions grew only 6.5% and costs 10.9% for the year. Non financial income also improved 9.8% for the year despite the fact that the absence of these affected 4Q results and extraordinary gains on the sale of securities were significantly higher in 2009 than in 2010. In fact, the superb performance of fee income, up 25.5% for the year helped offset the difference in extraordinary results. Another element that exacerbated the 4Q drop in income for BCP was the translation results which turned to a loss this 4Q due to the sudden strengthening of the US currency internationally. For the year, however, this line is also a strong positive with US\$ 23.3 million in earnings that helps compensate for higher profit sharing and taxes. Bottom line: BCP had an excellent increase in earnings of 19.9% for 2010, no doubt a superb result.

Thus, net contribution to Credicorp was up 19.5% for the year reaching US\$ 464.4 million, which reflects a strong ROAE of 26.8% and ROAA of 2.1%.

| Earnings contribution<br>US\$ 000 | Quarter |         |          | Change % |        | Year ended |          | Change %        |
|-----------------------------------|---------|---------|----------|----------|--------|------------|----------|-----------------|
|                                   | 4Q10    | 3Q10    | 4Q09     | QoQ      | YoY    | Dec 10     | Dec 09   | Dec 10 / Dec 09 |
| <b>Banco de Crédito</b>           |         |         |          |          |        |            |          |                 |
| BCP(1)                            | 99,129  | 135,216 | 104,518  | -27%     | -5%    | 464,360    | 388,501  | 20%             |
| BCB                               | 3,445   | 3,442   | 9,521    | 0%       | -64%   | 15,815     | 30,372   | -48%            |
| Financiera Edyficar               | 4,420   | 5,313   | 1,112    | -17%     | 297%   | 21,507     | 1,112    | 1834%           |
| Atlantic                          | 11,711  | 10,603  | 14,856   | 10%      | -21%   | 48,801     | 29,716   | 64%             |
| PPS                               | 15,962  | 10,439  | 12,372   | 53%      | 29%    | 47,411     | 37,374   | 27%             |
| Grupo Crédito (2)                 | 2,913   | 6,069   | 5,548    | -52%     | -47%   | 23,049     | 26,556   | -13%            |
| Prima                             | 8,006   | 5,696   | 4,224    | 41%      | 90%    | 25,505     | 20,798   | 23%             |
| Others                            | (5,093) | 373     | 1,324    | -1465%   | -485%  | (2,456)    | 5,758    | -143%           |
| <b>Credicorp and others</b>       |         |         |          |          |        |            |          |                 |
| (3)                               | (433)   | (6,101) | (14,996) | -93%     | -97%   | (12,319)   | (12,363) | 0%              |
| Credicorp Ltd.                    | (781)   | (5,844) | (14,992) | -87%     | -95%   | (12,123)   | (13,787) | -12%            |
| Others                            | 348     | (257)   | (4)      | -235%    | -9132% | (196)      | 1,424    | -114%           |
| <b>Net income</b>                 |         |         |          |          |        |            |          |                 |
| <b>attributable to</b>            |         |         |          |          |        |            |          |                 |
| Credicorp                         | 129,282 | 156,226 | 122,298  | -17%     | 6%     | 571,302    | 469,784  | 22%             |

(1) Includes Banco de Crédito de Bolivia and Edyficar.

(2) Includes Grupo Crédito, Servicorp and Prima AFP.

(3) Includes taxes on BCP's and PPS's dividends, and other expenses at the holding company level.

BCP Bolivia reported this 4Q flat earnings contribution of US\$ 3.4 million which reflect the new level of income generation of Bolivia after all the intervention of the government that led to the reduction of margins and fees and despite a robust loan growth which again reached 6.0% QoQ. Overall, performance for the year 2010 revealed robust loan growth of 25.7%, but profitability has come down to a total contribution for the year of US\$ 15.8 million down from US\$ 30.4 million in 2009 and even higher contributions in the past. Nevertheless, ROAE remains at an acceptable 14.7%.

Financiera Edyficar obtained positive results in 4Q10, which contributed to consolidating the company's excellent performance throughout 2010. Net earnings in 4Q10 were US\$ 4.5 million, which is lower than the figure reported in 3Q10 (-16.9%) due primarily to higher income tax provisions for 2010 realized in the 4Q and due to a slight loss on local currency exposure after the Nuevo Sol depreciated 1% against the US Dollar during 4Q10. Nevertheless, business evolution was excellent with a loan portfolio up 42.6% for the year maintaining its PDL ratio low at 4.0%.

ASHC reported an increase in contribution of 10.4% reaching US\$ 11.7 million for 4Q10. The QoQ increase is primarily attributable to higher margins in 4Q10, which were associated with a strategy to seek higher returns by reshuffling the investment portfolio. Aligned with this move, US\$ 1.8 million in provisions were set aside this quarter in keeping with the bank's conservative policy. This result brought ASHC's contribution to Credicorp to a record sum of US\$ 48.8 million, an unprecedented figure for our asset management & private banking business.

Pacifico insurance group reported net income of US\$ 16.5 million in 4Q10, similar to the figure of US\$ 16.4 million recorded in 3Q10. However, accumulated results in 2010 reported record net income of US\$ 68.3 million, which tops 2009's result of US\$ 61.7 million by 10.8%. This increase is due primarily an improvement in the underwriting result. The underwriting result obtained in 2010 totaled US\$ 93.4 million, which exceeds last year's result by 16.9%. This



significant growth is due to a lower loss ratio of 63.6% versus 65.2% in 2009, which is in turn attributable to a disciplined approach to underwriting and portfolio diversification. The expense side however, increased enough to offset the improvement in the loss ratio, though leaving enough room for the 10.8% expansion of net earnings referred to above.

In addition, Pacifico's contribution to Credicorp benefitted this last 4Q from the acquisition of ALICO's shares of the Pacifico group, especially since the profitable life insurance business contributes now almost 100% of its income to the group vs. about 50 % before the acquisition. Such contribution reached this 4Q US\$ 16.0 million which exceeded 3Q10's figure and topped the earnings of US\$ 12.4 million reported in 4Q09. For the year, PPS contributed US\$ 47.4 million to Credicorp's bottom line, becoming this way a significant player that offers also a large growth potential.

Finally, Prima AFP outperformed its previous results and reported US\$ 8.0 million contribution for the 4Q, up 40.6%. This is the result of the reversal of some provisions for taxes & profit sharing and a slight increase in fee income. On a yearly basis, Prima also reports an extraordinary 22.6% increase in net income contribution reaching a total US\$ 25.5 million, an outstanding result for a business that is still constraint by temporary regulatory measures. Furthermore, Prima has finally consolidated its leadership in the industry including its volumes of assets under management.

Credicorp Ltd.'s line includes the provisions for withholding taxes on dividends paid to Credicorp and eventually dividend & interest income from investments in some selected Peruvian stocks and bonds recorded during the period, which are today held at Credicorp Ltd. and previously booked at Grupo Crédito. However, the change in the holding structure with the relevance given to Grupo Credito as a local holding has reduced significantly the withholding taxes paid and therefore the provisions needed for these every Q, which explains the drop in the provisions reported at Credicorp Ltd. It is also worth mentioning, that the cost of executing the changes in holding structure summed approximately US\$9 million (partly booked at Grupo Credito under others and partly at Credicorp Ltd.), but were more than compensated by the savings in withholding taxes the change generated for which provisions had been created and were now reversed.

As described above, all business segments are today aligned with Credicorp's overall objectives and have become significant and profitable contributors to the growth targets set by Credicorp.

## II. Banco de Crédito – BCP - Consolidated

## Summary 4Q10

BCP's net income in 4Q10 totaled US\$ 101.6 million. Although this result reflects a 26% drop QoQ, it in no way indicates that business is deteriorating given that the bank's core earnings registered a 3.6% expansion during the same period.

The bank's core earning, in fact, reported significant growth and demonstrate that the upward trend seen earlier in the year remains in play. In this context, net interest and dividend income grew 5.1% QoQ while fee income remained at levels similar to those seen in the previous quarter. Net gain on FX transactions grew 9.7% this quarter.

| Core earnings<br>US\$ 000                 | Quarter |         |         | Change % |       | Year to date |           | Change %          |
|---|---------|---------|---------|----------|-------|--------------|-----------|-------------------|
|   | 4Q10    | 3Q10    | 4Q09    | QoQ      | YoY   | Dec. 10      | Dec. 09   | Dec. 10 / Dec. 09 |
| Net interest and dividend income          | 254,533 | 242,274 | 211,233 | 5.1%     | 20.5% | 944,634      | 798,217   | 18.3%             |
| Fee income, net                           | 120,136 | 120,839 | 109,546 | -0.6%    | 9.7%  | 461,775      | 368,067   | 25.5%             |
| Net gain on foreign exchange transactions | 28,909  | 26,354  | 23,430  | 9.7%     | 23.4% | 104,361      | 93,462    | 11.7%             |
| Core earnings                             | 403,578 | 389,467 | 344,209 | 3.6%     | 17.2% | 1,510,770    | 1,259,746 | 19.9%             |

This evolution clearly indicates that the decline is associated with significantly lower extraordinary income from sales of securities which reached substantial levels in the previous two quarters; higher operating expenses related to seasonal effects, the impact of variable remuneration and incentive compensation provisions during a quarter marked by strong loan growth and continuous growth of the network; and the global recovery of the US dollar, reflected in the exchange rate, generating translation losses that contrast with the translation gains posted in the previous quarter.

The aforementioned demonstrates that the banking business continues to experience the strong expansion reported in previous quarters. The year's accumulated results leave no room for doubt that this expansive trend continues as BCP reported close to 24% growth in loans, 20% increase in net income of US\$ 476.3 million and a 22.5% expansion in operating income.

| Banco de Credito and Subsidiaries<br>US\$ 000 | Quarter    |            |            | Change % |         | Year to date |            |
|---|------------|------------|------------|----------|---------|--------------|------------|
|   | 4Q10       | 3Q10       | 4Q09       | QoQ      | YoY     | Dec. 10      | Dec. 09    |
| Net financial income                          | 254,533    | 242,274    | 211,233    | 5.1%     | 20.5%   | 944,634      | 798,217    |
| Total provisions for loan losses              | (48,531)   | (52,614)   | (44,933)   | -7.8%    | 8.0%    | (175,773)    | (165,000)  |
| Non financial income                          | 159,912    | 167,348    | 144,977    | -4.4%    | 10.3%   | 634,642      | 577,000    |
| Operating expenses                            | (214,813)  | (184,751)  | (197,956)  | 16.3%    | 8.5%    | (768,077)    | (692,000)  |
| Operating income (1)                          | 151,101    | 172,257    | 113,321    | -12.3%   | 33.3%   | 635,426      | 518,000    |
| Core operating income (2)                     | 151,101    | 162,620    | 113,321    | -7.1%    | 33.3%   | 600,440      | 445,000    |
| Non core operating income (3)                 | -          | 9,637      | -          | -100.0%  | -       | 34,986       | 72,000     |
| Translation results                           | (6,281)    | 12,896     | 12,609     | -148.7%  | -149.8% | 23,267       | 7,000      |
| Worker's profit sharing and income taxes      | (43,103)   | (46,382)   | (18,207)   | -7.1%    | 136.7%  | (181,685)    | (127,000)  |
| Net income                                    | 101,567    | 138,620    | 107,398    | -26.7%   | -5.4%   | 476,317      | 397,000    |
| Net income / share (US\$)                     | 0.040      | 0.054      | 0.042      | -26.8%   | -5.5%   | 0.186        | 0.150      |
| Total loans                                   | 14,334,841 | 13,326,601 | 11,577,303 | 7.6%     | 23.8%   | 14,334,841   | 11,577,303 |

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|                          |            |            |            |      |       |            |            |
|--------------------------|------------|------------|------------|------|-------|------------|------------|
| Deposits and obligations | 17,069,817 | 15,642,366 | 14,465,809 | 9.1% | 18.0% | 17,069,817 | 14,465,809 |
| Net shareholders' equity | 1,992,545  | 1,864,471  | 1,675,533  | 6.9% | 18.9% | 1,992,545  | 1,675,533  |
| Net financial margin     | 4.5%       | 4.8%       | 5.0%       |      |       | 4.8%       |            |
| Efficiency ratio         | 50.9%      | 46.3%      | 53.8%      |      |       | 49.1%      |            |
| Return on average equity | 21.1%      | 31.3%      | 26.6%      |      |       | 26.8%      |            |
| PDL / Total loans        | 1.5%       | 1.6%       | 1.6%       |      |       | 1.5%       |            |
| Coverage ratio of PDLs   | 198.5%     | 193.3%     | 192.3%     |      |       | 198.5%     | 193.3%     |
| BIS ratio                | 12.8%      | 13.9%      | 14.5%      |      |       | 12.8%      |            |
| Branches                 | 327        | 324        | 334        |      |       | 327        |            |
| Agentes BCP              | 3,513      | 3,354      | 2,801      |      |       | 3,513      | 2,801      |
| ATMs                     | 1,159      | 1,109      | 996        |      |       | 1,159      | 996        |
| Employees                | 16,148     | 15,650     | 16,748     |      |       | 16,148     | 16,748     |

(1) Income before translation results, workers' profit sharing and income taxes.

(2) Core operating income = Operating income - non core operating income.

(3) Includes non core operating income from net gains on sales of securities of US\$ 43.406 million in 1Q09, US\$ 29.321 million in 2Q09, US\$ 25.349 million in 2Q10 and US\$ 9.637 million in 3Q10.

If we look at the differences that explain the lower result this quarter in greater detail, the following points stand out:

- i) The lower income from sales of securities explains the decline of close to US\$ 10 million;

- ii) Translation losses due to the recovery of the US currency, contrasted with the translation gains posted last quarter, which account for a decline of almost US\$ 19 million; and
- iii) Higher expenses for personnel, an increase of the impact of variable remuneration due to strong loan expansion and the provisions required for the incentive compensation packages, and seasonally higher administrative expenses increased total operating expenses for the Q in about US\$ 30 million.

Additionally, loan provisions remained historically high due to the bank's decision to implement pro-cyclical provisions prior to the date required by the Supervisor as well as the conservative approach of management. These high levels were maintained despite a drop in the past-due loans and the subsequent improvement in the past-due-loan ratio, which fell from 1.6% to 1.5% at the end of the year.

The assets level grew substantially, reporting 8.1% growth QoQ due to an increase in total loans (+7.8% QoQ) and the bank's higher liquidity levels (+10.9%), the latter of which suffered a re-composition after the BCRP decided not to renew a significant quantity of CDs (securities available for sale), choosing instead to replace them by auctioning BCRP time deposits. This move was meant to reduce the supply of investments denominated in Nuevos Soles made available to non-banking entities (such as funds), which had been selling their positions in dollars to invest in these attractive local currency CDs, generating significant revaluation pressure on the exchange rate.

This strong growth in assets went hand-in-hand with substantial growth in deposits –mainly time-deposits-, which increased 9.1% QoQ and the expansion of 14.6% QoQ in due to banks, an evolution that spurred funding cost in this 4Q.

After three consecutive quarters of improvement in operating efficiency, this indicator increased in 4Q10 due to higher spending reaching a level of 50.9%. This level represents the high end of the new range of the efficiency ratio that we hope to maintain after implementing a series of measures.

The lower result this quarter also affected ROAE, which only reached 21.1% this quarter while ROAA fell to 1.7%.

#### Comparison 2010 vs. 2009

Accumulated results this year, in contrast to quarterly results, reflect the excellent business evolution in terms of expansion of the loan portfolio and assets level as well as increased earnings. The accumulated results also reported an increase in ROAE, which went from 26.6% to 26.8%.

Total loans grew 24% and subsequently, net interest income also increased 18.3%, which was in line with loan growth, while NIM was sustained at its 4.8%. Nevertheless, provisions, which were high during the last two quarters, only grew 6.5%.

Fee income experienced record growth of 25.5% in 2010, which led to 9.8% growth in non-financial income despite income from securities sales did not reach the extraordinarily high levels registered the previous year.

On the expenses side, although operating expenses grew substantially this last quarter, accumulated results for the year reported a very modest 10.9%. As such, the efficiency ratio reflects the year's true achievements in terms of this indicator, which fell from 51.9% to 49.1%. This result is in line with our goal to improve the bank's efficiency.

Despite a minor translation loss in 4Q10, the year's accumulated results report translations gains for triple the amount registered last year. This confirms that bank's policy in terms of FX positions in a context marked by a revaluation in the Nuevo Sol, which reached 2.8% in 2010, was on-target.



In this scenario, accumulated income in 2010 totaled US\$ 476 million, which is a new record for the bank and reflects 19.9% growth in earnings this year.

## II.1 Interest Earning Assets

Interest earning assets reported a significant increase of 8.9% QoQ. This was attributable to growth in current loans (+7.7%) and in other liquidity positions, which were restructured to include BCRP time deposits.

| Interest earning assets<br>US\$ 000 | Quarter    |            |            | Change % |        |
|-------------------------------------|------------|------------|------------|----------|--------|
|                                     | 4Q10       | 3Q10       | 4Q09       | QoQ      | YoY    |
| BCRP and other banks                | 7,661,891  | 3,012,573  | 2,980,575  | 154.3%   | 157.1% |
| Interbank funds                     | 59,000     | -          | 75,000     | 100.0%   | -21.3% |
| Trading securities                  | 114,430    | 73,986     | 70,318     | 54.7%    | 62.7%  |
| Securities available for sale       | 1,503,201  | 5,336,436  | 3,026,542  | -71.8%   | -50.3% |
| Current loans                       | 14,125,859 | 13,114,103 | 11,393,557 | 7.7%     | 24.0%  |
| Total interest earning assets       | 23,464,381 | 21,537,098 | 17,545,992 | 8.9%     | 33.7%  |

The most significant re-composition of assets came after BCRP decided to stop issuing CDs and replace them with Time deposits auctions. This restructuring has had little impact on investment yields for banks given that it generates no relevant effect on rates. Nevertheless, investment in BCRP deposits is only available to banking entities and cannot be accessed by other financial entities such as investment funds, which, on the contrary had access to BCRP CDs. This decision allowed BCRP to reduce revaluation pressures on the domestic currency, which were generated by investment funds' attempts to improve profitability in Nuevos Soles through the investment in CDs for positions held in dollars.

Furthermore, we would like to point out that BCRP's policy on legal reserves, which increased reserve requirements in approximately US\$ 840 million throughout 2010, had some impact on the profitability of assets.

On the other hand, current loans increased 7.7% QoQ while the rest of investments & deposits in BCRP and other banks grew 10.9% QoQ, which changed the composition of interest-earning assets against the most profitable asset, having also a negative impact on NIM, as we explain later on.

### Loan portfolio

At the end of 2010, current loans at BCP totaled US\$ 14,125 million, which stands as evidence of sustained growth throughout the year and represents a 7.7% expansion QoQ and 24% YoY. The upward trend in 2010 is attributable to the highly dynamic local economy and the Bank's continuous efforts to become market leader in all segments.

The following chart shows the evolution of average daily balances and end-of-period balances. It is evident that the upward trend in loans has been constant throughout the year. Quarterly evolution shows 7.8% growth, which tops the 5.5% recorded last quarter and represents the most significant quarterly expansion in 2010.

If we analyze daily balances for each loan unit, it is evident that all the segments have grown QoQ and YoY. Wholesale Banking reported increases of 8.3% QoQ and 29.9% YoY that are associated primarily with financing for investment projects. Retail Banking reported 7.5% growth QoQ and 21.1% YoY, which is attributable to efforts to increase banking penetration.

## Average Daily Balances

|                          | TOTAL LOANS (1) |          |          |       |       |
|--------------------------|-----------------|----------|----------|-------|-------|
|                          | (US\$ million)  |          |          |       |       |
|                          | 4Q10            | 3Q10     | 4Q09     | TaT   | AaA   |
| Wholesale Banking        | 7,650.8         | 7,065.0  | 5,891.3  | 8.3%  | 29.9% |
| - Corporate              | 5,087.8         | 4,552.2  | 3,987.2  | 11.8% | 27.6% |
| - Middle Market          | 2,563.0         | 2,512.7  | 1,904.0  | 2.0%  | 34.6% |
| Retail Banking           | 5,182.5         | 4,821.0  | 4,280.5  | 7.5%  | 21.1% |
| - SME + Business         | 1,798.3         | 1,633.0  | 1,401.8  | 10.1% | 28.3% |
| - Mortgages              | 1,869.2         | 1,753.4  | 1,551.8  | 6.6%  | 20.5% |
| - Consumer               | 949.9           | 898.3    | 828.8    | 5.7%  | 14.6% |
| - Credit Cards           | 565.0           | 536.3    | 498.1    | 5.4%  | 13.4% |
| Edyficar                 | 333.3           | 302.1    | 254.4*   | 10.3% | 31.0% |
| Others (2)               | 762.0           | 735.1    | 660.4    | 3.7%  | 15.4% |
| Consolidated total loans | 13,928.5        | 12,923.1 | 11,086.5 | 7.8%  | 25.6% |

\* Monthly-end balance as of Dec. 09.

(1) Average daily balance.

(2) Includes Work Out Unit, other banking and BCP Bolivia.

Source: BCP

It is important to note the following with regard to the evolution within the two banking businesses:

- The Corporate Banking portfolio reported the highest quarterly growth registered in the year (+11.8%), primarily due to significant mid-term financing that consolidated significant expansion of 27.6% YoY.
- Middle-Market Banking portfolio registered a slight increase of 2% QoQ that was equivalent to US\$50 million; this improvement was due primarily to mid-term and sales financing operations. Nevertheless, a final yearly review indicates that Middle-Market Banking's portfolio increased a very strong 34.6%.
- Within the Retail Banking segment, QoQ and YoY growth was most significant in the SME-Business and Mortgage segments, which grew 10.1% and 6.6% QoQ and 28.3% and 20.5% YoY, respectively.
- Finally, Edyficar's loan portfolio continued to increase throughout 2010 to total US\$ 333.3 million at the end of the year. This represented a QoQ increase of 10.3%.

If we look at loan evolution by currency type, it is evident that both portfolios expanded QoQ and YoY. Nevertheless, the foreign currency (FC) portfolio reported the highest growth.





## Average Daily Balances

|                | Domestic Currency Loans (1)<br>(Nuevos Soles million) |          |          |       |       | Foreign Currency Loans (1)<br>(US\$ million) |         |         |       |        |
|----------------|---|----------|----------|-------|-------|--|---------|---------|-------|--------|
|                | 4Q10  | 3Q10     | 4Q09     | TaT   | AaA   | 4Q10   | 3Q10    | 4Q09    | TaT   | AaA    |
| Wholesale      |   |          |          |       |       |  |         |         |       |        |
| Banking        | 5,069.6   | 5,052.1  | 4,706.6  | 0.3%  | 7.7%  | 5,848.4                                      | 5,262.1 | 4,263.3 | 11.1% | 37.2%  |
| - Corporate    | 3,443.7   | 3,475.6  | 3,535.5  | -0.9% | -2.6% | 3,863.4                                      | 3,312.0 | 2,764.4 | 16.6% | 39.8%  |
| - Middle       |   |          |          |       |       |  |         |         |       |        |
| Market         | 1,625.9   | 1,576.6  | 1,171.0  | 3.1%  | 38.8% | 1,985.0                                      | 1,950.1 | 1,499.0 | 1.8%  | 32.4%  |
| Retail         |   |          |          |       |       |  |         |         |       |        |
| Banking        | 8,946.6   | 8,258.6  | 7,172.3  | 8.3%  | 24.7% | 2,001.7                                      | 1,873.7 | 1,799.7 | 6.8%  | 11.2%  |
| - SME +        |   |          |          |       |       |  |         |         |       |        |
| Business       | 3,228.1   | 2,876.7  | 2,442.1  | 12.2% | 32.2% | 650.7  | 606.3   | 557.1   | 7.3%  | 16.8%  |
| - Mortgages    | 2,378.8   | 2,240.8  | 1,826.3  | 6.2%  | 30.3% | 1,023.5                                      | 953.7   | 920.2   | 7.3%  | 11.2%  |
| - Consumer     | 1,956.2   | 1,830.5  | 1,657.7  | 6.9%  | 18.0% | 254.4  | 245.0   | 255.5   | 3.8%  | -0.4%  |
| - Credit Cards | 1,383.5   | 1,310.6  | 1,246.3  | 5.6%  | 11.0% | 73.2   | 68.6    | 67.0    | 6.6%  | 9.2%   |
| Edyficar       | 900.9   | 810.8    | 693.1*   | 11.1% | 30.0% | 13.0   | 12.7    | 14.6*   | 1.9%  | -11.2% |
| Others (2)     | 165.2   | 167.4    | 138.7    | -1.3% | 19.1% | 703.3  | 675.3   | 612.4   | 4.1%  | 14.8%  |
| Consolidated   |   |          |          |       |       |  |         |         |       |        |
| total loans    | 15,082.3  | 14,288.9 | 12,710.8 | 5.6%  | 18.7% | 8,566.3                                      | 7,823.8 | 6,690.1 | 9.5%  | 28.0%  |

\* Monthly-end balance as of Dec. 09.

(1) Average daily balance.

(2) Includes Work Out Unit, other banking and BCP Bolivia.

Source: BCP

The expansion in the FC portfolio is due to significant loan growth in Wholesale Banking portfolio. As we have already mentioned, this situation is attributable to a weak US dollar and lower interest rates on FC loans. The wholesale sector is better prepared to manage FC exposure thanks to the natural cover provided by the nature of its business (in terms of assets and income in FC) and the fact that professionals working in this area are well prepared to seek out adequate market coverage.

Loan growth in the local currency (LC) portfolio is primarily attributable to an increase in Retail loans, particularly to the SME-Business and Mortgage segments, which grew 32.2% and 30.3% YoY, respectively.

Edyficar's portfolio, which is still concentrated in local currency, grew 11.1% QoQ inn 4Q10 versus 8.0% in 3Q10.

#### Market Share

At the end of November, BCP continued to be the market leader with a 31.5% market share, which is more than 10 percentage points above its closest competitor. This not only makes BCP the best positioned bank but also shows the growth in market share experimented in all segments. In this context, Corporate Banking and Middle-Market Banking boasted market shares of 47% and 33% respectively, which tops the figures obtained at the end of September 2010. Within Retail Banking, a slight increase is apparent in each of the segments and products. We would also like to point out the mortgage segment's share has topped 34% consistently throughout the year.



## Dollarization

FC portfolio's participation in the total portfolio increased QoQ and YoY to total 61.8% at the end of 2010. This rise is closely tied to significant yearly expansion in the Wholesale Banking Portfolio, whose loans are mostly FC-denominated.

## II.2 Deposits and Mutual Funds

Deposits grew 9.1% QoQ and 18.0% YoY and continue to be BCP's primary funding source. Market recovery and our clients' desire for higher yields generated a significant increase of 8.1% QoQ and 13.3% YoY in mutual funds.

| Deposits and obligations<br>US\$ 000  | Quarter    |            |            | Change % |        |
|---------------------------------------|------------|------------|------------|----------|--------|
|                                       | 4Q10       | 3Q10       | 4Q09       | QoQ      | YoY    |
| Non-interest bearing deposits         | 4,203,023  | 3,918,653  | 3,261,009  | 7.3%     | 28.9%  |
| Demand deposits                       | 1,394,651  | 1,338,403  | 1,179,634  | 4.2%     | 18.2%  |
| Saving deposits                       | 4,244,940  | 3,953,997  | 3,539,917  | 7.4%     | 19.9%  |
| Time deposits                         | 5,872,455  | 5,267,355  | 5,361,410  | 11.5%    | 9.5%   |
| Severance indemnity deposits<br>(CTS) | 1,313,122  | 1,127,933  | 1,069,267  | 16.4%    | 22.8%  |
| Interest payable                      | 41,627     | 36,026     | 54,572     | 15.5%    | -23.7% |
| Total customer deposits               | 17,069,818 | 15,642,367 | 14,465,809 | 9.1%     | 18.0%  |
| Mutual funds in Perú                  | 2,369,634  | 2,164,067  | 2,042,159  | 9.5%     | 16.0%  |
| Mutual funds in Bolivia               | 102,586    | 123,312    | 139,709    | -16.8%   | -26.6% |
| Total customer funds                  | 19,542,038 | 17,929,746 | 16,647,677 | 9.0%     | 17.4%  |

If we look at deposit evolution by deposit type, growth in 4Q was led by time deposits (+11.5%) given that corporate clients in the Wholesale Banking segment maintained higher FC balances. Additionally, an increase was reported in savings deposits (+7.4%) and CTS accounts (+16.4%) mainly from deposits captured by Retail Banking as a result of intensive campaigns. Demand deposits increased 4.2% QoQ, led by Middle-Market Banking clients.

Other funding sources at BCP that reported significant increase were due to banks and correspondents (+14.6% TaT), which is attributable to a syndicated loan that was taken out in the month of October to maintain the matching of assets and liabilities especially in the FC portfolio where there is a relative shortage due to BCRP's legal reserves requirements and a higher level of deposit de-dollarization.

This evolution in funding sources represents BCP's strong capacity to capture funds, which helps us ensure future portfolio growth and maintain market leadership. The aforementioned went hand-in-hand with a funding cost of 2.10%, which is similar to the 2.11% obtained in 3Q10, but does reflect increased funding cost of 2H10 given the stronger growth of more expensive funding sources, compared to the 1H10.

BCP's mutual funds reported significant 8.1% growth in the last quarter. This improvement is mainly attributable to growth in Credifondo's funds under management (+9.5% QoQ), which is in turn due the positive evolution of international markets and the fact that the Peruvian economy remains dynamic. An additional factor in this success is linked to the constant sales campaigns undertaken by this segment. Credifondo continues to be market leader in terms of the volume managed and the number of affiliates, which reported 42.4% and 33.1%, respectively.

#### Market Share in Deposits

At the end of December, BCP continued to lead the market for deposits with a 34.4% share, topping 3Q10's figure (34.1%) while outpacing the closest competitor by 14 percentage points. It is important to note the increase in the market share for FC deposits, which went from 35.6% in September to 37.4% at year-end. This last factor was due primarily to higher balances in FC time deposits in the Wholesale Banking segment.

|    | Market share by type of deposit and currency |                 |               |                     |
|----|--|-----------------|---------------|---------------------|
|    | Demand deposits                              | Saving deposits | Time deposits | Severance indemnity |
| LC | 38.9%  | 36.9%           | 27.0%         | 39.5%               |
| FC | 42.4%  | 40.5%           | 32.5%         | 55.5%               |

LC: Local Currency  
FC: Foreign Currency

BCP continues to hold a solid lead in all products in both LC and FC deposits. This quarter the highest increases in market shares for deposits were reported for FC time deposits (28.5% in 3Q10) and local currency CTS deposits (37.9% in 3Q10).

#### Dollarization

At the end of 4Q10, a slight increase in the percentage of FC deposits was evident. A YoY analysis shows that deposits have undergone significant de-dollarization- reflected in the percentage of LC deposits, which increased from 37.9% to 47.5% at the end of 2010. This is due to the fact that confidence in the local currency has risen especially considered that domestic currency appreciated 2.8% against the US dollar in 2010.

## II.3 Net Interest Income

NII grew 5.1% QoQ while the interest-earning assets portfolio expanded 11.7%, which caused NIM to drop from 4.8% to 4.5%.

| Net interest income<br>US\$ 000         | Quarter    |            |            | Change % |         | Year to date |            | Change % |
|---|------------|------------|------------|----------|---------|--------------|------------|----------|
|   | 4Q10       | 3Q10       | 4Q09       | QoQ      | YoY     | Dec. 10      | Dec. 09    |          |
| Interest income                         | 368,460    | 345,937    | 301,319    | 6.5%     | 22.3%   | 1,331,867    | 1,204,914  | 10.5%    |
| Interest on loans                       | 330,701    | 309,818    | 274,340    | 6.7%     | 20.5%   | 1,214,987    | 1,057,384  | 14.9%    |
| Interest and dividends on investments   | 59         | 33         | 43         | 78.8%    | 37.2%   | 3,591        | 3,131      | 14.7%    |
| Interest on deposits with banks         | 26,823     | 1,643      | 2,327      | 1532.6%  | 1052.7% | 31,881       | 13,775     | 131.4%   |
| Interest on trading securities          | 12,431     | 21,035     | 22,008     | -40.9%   | -43.5%  | 72,815       | 109,723    | -33.6%   |
| Other interest income                   | (1,554)    | 13,408     | 2,601      | -111.6%  | -159.7% | 8,593        | 20,901     | -58.9%   |
| Interest expense                        | 113,927    | 103,663    | 90,086     | 9.9%     | 26.5%   | 387,233      | 406,697    | -4.8%    |
| Interest on deposits                    | 40,152     | 36,706     | 49,258     | 9.4%     | -18.5%  | 120,128      | 269,361    | -55.4%   |
| Interest on borrowed funds              | 48,953     | 40,430     | 6,681      | 21.1%    | 632.7%  | 130,013      | 27,925     | 365.6%   |
| Interest on bonds and subordinated note | 9,742      | 10,648     | 20,916     | -8.5%    | -53.4%  | 104,760      | 67,929     | 54.2%    |
| Other interest expense                  | 15,081     | 15,879     | 13,231     | -5.0%    | 14.0%   | 32,332       | 41,482     | -22.1%   |
| Net interest income                     | 254,533    | 242,274    | 211,233    | 5.1%     | 20.5%   | 944,634      | 798,217    | 18.3%    |
| Average interest earning assets         | 22,500,740 | 20,147,428 | 16,826,904 | 11.7%    | 33.7%   | 19,832,358   | 16,579,634 | 19.6%    |
| Net interest margin*                    | 4.52%      | 4.81%      | 5.02%      |          |         | 4.76%        | 4.81%      |          |

\*Annualized

The quarterly evolution of NII shows 5.1% growth. This was attributable to a 6.7% increase in interest on loans due to the significant loan growth, which was however attenuated by the 9.9% increase QoQ in interest expenses as a result of higher interests on due to banks (+21.1% QoQ) and deposits (+9.4% QoQ). The latter is related to changes in the funding structure, particularly in terms of needs for funding in US dollars abroad, as well as higher interest expenses due to an increase in interest rates on time deposits and especially on FC time deposits given the fact that BCR's aggressive policy on legal reserves has made this currency scarce.

Furthermore, the reduction in other interest income was related to derivatives for trading, which was the result of a scenario with devaluation of Nuevo Sol and higher swap rates in Nuevos Soles during 4Q10 in contrast to a scenario with appreciation of Nuevo Sol and lower swap rates in Nuevos Soles as such of 3Q10's.

Accumulated results showed a significantly better evolution reporting an 18.3% increase of NII explained not only by a 10.5% rise in interest income but also by the 4.8% reduction of interest expenses. Interest income grew mainly as an

effect of higher interest income on loans (+14.9%), which in turn was related to the loan expansion achieved in 2010 (+23.8%). On the expenses side, the contraction reported came mainly from the 55.4% reduction of interest expenses on deposits that off set the higher expenses in interest on borrowed funds and bonds. It is important to highlight that the decrease in interest on deposits was the result of lower average interest rate in 2010 in comparison with the average rate in 2009 (1.03% vs 1.82%), hence even when the volume of deposits grew 18% in 2010 most of this increase came from demand deposits and savings, which earn very low or null interests.

Consequent with this evolution, NIM reported a drop from 4.8% to 4.5%. This decrease was the effect of:

i) interest income not growing at the same pace of interest-earning assets due to the aforementioned re-composition of these assets in favor of lower yielding assets (the sum of investments, deposits in BCRP and other banks expanded +10.9%; while loans increased +7.8% and within loans, Wholesale Banking portfolio with its lower margins reported higher growth than the other segments); and

ii) interest expense increasing in this 4Q as a result of a change in the funding structure towards more expensive sources (with time deposits and borrowed funds growing faster), all of which made NII increase only 5.1% QoQ, while interest-earning assets grew 11.7%, causing a drop in NIM.

Loan NIM remained at levels similar to those seen in 3Q10, which is reflected in the fact that NIM levels for different products have remained relatively stable.

Despite this quarterly evolution, the accumulated results for the year show that NIM has been stable given that the different forces that act on it tended to cancel each other out. As such, the NIM at year-end reflected the same margin obtained last year of 4.8%.

#### Loan / Deposit Ratio

Another aspect that affects NIM's evolution is our conservative policy to match assets and liabilities in terms of currency and maturities, which implies incurring an opportunity cost. In this regard, even when the aggregated ratio of loan to deposits is 84.0%, there is significant growth in LC deposits while FC deposit levels grew little, which is reflected in the loan-to-deposit ratio that is currently 67.5% in LC and 98.9% in FC. This in turn translated into a need for FC funds to finance portfolio growth while maintaining adequate matching. To accomplish this, new issuances and loans are needed, which entail higher funding costs than deposits. At the same time, this scenario generates a surplus of LC deposits, which are invested in BCR instruments causing further downward pressure on NIM given that interest income on investment is low and the tax benefit that boosts the profitability of these instruments is not captured by NIM.



## II.4 Past Due Portfolio and Provisions for Loan Losses

For the second consecutive quarter, the past due ratio fell, situating at 1.46% (vs. 1.59% in 3Q10). This was attributable to a contraction in the past due loan portfolio (-1.7% QoQ) and growth in total loans (+7.6% QoQ).

| Provision for loan losses<br>US\$ 000 | Quarter    |            |            | Change % |       |
|---------------------------------------|------------|------------|------------|----------|-------|
|                                       | 4Q10       | 3Q10       | 4Q09       | QoQ      | YoY   |
| Provisions                            | (56,171)   | (59,018)   | (50,554)   | -4.8%    | 11.1% |
| Loan loss recoveries                  | 7,640      | 6,404      | 5,620      | 19.3%    | 35.9% |
| Net provisions, for loan losses       | (48,531)   | (52,614)   | (44,934)   | -7.8%    | 8.0%  |
| Total loans                           | 14,334,841 | 13,326,601 | 11,577,303 | 7.6%     | 23.8% |
| Reserve for loan losses (RLL)         | 414,806    | 410,814    | 353,348    | 1.0%     | 17.4% |
| Charge-Off amount                     | 38,938     | 35,801     | 31,652     | 8.8%     | 23.0% |
| Past due loans (PDL)                  | 208,982    | 212,498    | 183,746    | -1.7%    | 13.7% |
| PDL / Total loans                     | 1.46%      | 1.59%      | 1.59%      |          |       |
| Coverage                              | 198.5%     | 193.3%     | 192.3%     |          |       |

During 4Q10, the past due ratio dropped significantly to 1.46%, which is 14 bps below last quarter's ratio (1.59%). This decline was reflected primarily in the past due ratios for SME, Credit Cards, Consumer lending, Edyficar and Wholesale Banking. It is also important to point out that the 90-day past due loan ratio was also satisfactory at the end of 4Q10, when it reported 0.99% (vs. 0.97% in 3Q10).

If we analyze the YoY evolution, it is evident that past due ratios year-to-year have been similar given that the past due ratio at the end of 2009 was 1.59% whereas the figure at the close of 2010 was 1.46%. The aforementioned was the result of significant growth in total loans (+23.8%), which helped offset the increase in the past due portfolio (+13.7%).

Provisions expenses fell in 4Q10 (-7.8% QoQ) due to lower net provisions for reversals (-4.8% QoQ) and an increase in the number of recoveries reported during the quarter (+19.3% QoQ). Additionally, coverage for the past due portfolio was 198.5%, which is higher than the 193.3% reported in 3Q10 due to higher provisions and a drop in the past due portfolio.

On the other hand, net provisions increased 8.0% YoY. This is due to portfolio growth, new product segmentation, and the Regulator's decision to reactivate pro-cyclical provisions in 3Q10.

## II.5 Non Financial Income

Banking service fees took center stage this year in terms of non financial income. These levels continued to be high, as seen initially in 3Q10, and reflect accumulated yearly growth of 25.5%. Nevertheless, total non financial income reported only 9.8% accumulated growth for the year due to strong difference in the extraordinary results for securities sales.

| Non financial income<br>US\$ 000             | Quarter |         |         | Change % |        | Year to date |         | Change %          |
|--|---------|---------|---------|----------|--------|--------------|---------|-------------------|
|  | 4Q10    | 3Q10    | 4Q09    | QoQ      | YoY    | Dec. 10      | Dec. 09 | Dec. 10 / Dec. 09 |
| Fee income                                   | 120,136 | 120,839 | 109,546 | -0.6%    | 9.7%   | 461,775      | 368,067 | 25.5%             |
| Net gain on foreign<br>exchange transactions | 28,909  | 26,354  | 23,430  | 9.7%     | 23.4%  | 104,361      | 93,462  | 11.7%             |
| Net gain on sales of<br>securities           | 2,264   | 18,987  | 9,185   | -88.1%   | -75.4% | 51,139       | 101,349 | -49.5%            |
| Other income                                 | 8,603   | 1,168   | 2,816   | 636.6%   | 205.5% | 17,367       | 15,067  | 15.3%             |
| Total non financial<br>income                | 159,912 | 167,348 | 144,977 | -4.4%    | 10.3%  | 634,642      | 577,945 | 9.8%              |

Banking service fees reported high levels similar to those seen in the previous quarter; nevertheless, some items reported noteworthy increases, including Miscellaneous Accounts (+3.8% QoQ), which is fundamentally related to higher fees for Saving Accounts & Debit Cards, and Credit Cards (+4.9% QoQ). This offset contractions experimented in other items such as Corporate Finance fees, which reported record levels in 3Q10. In annual terms, fees rose a significant 25.5%.

The aforementioned, coupled with higher net gains on FX transactions, which rose 23% QoQ due to an increase in the transactions volume during the holiday period at year-end, and reported an annual growth of 11.7% in accumulated terms, helped offset the impact generated by a drop in net earnings on sales of securities.

It is important to remember that the extraordinary income on sales of securities recorded in 3Q and 2Q, which were associated with the Peruvian Government's move to repurchase bonds denominated in Euros, were even lower than the extraordinary income registered the previous year. This distorts the evolution of traditional non-financial income, which was actually quite outstanding. Thus, and despite the aforementioned distortion, non financial income grew 9.8% in 2010.

| Banking Fee Income<br>US\$ 000 | Quarter |         |         | Change %    |             | Year to date |         | Change %          |
|--------------------------------|---------|---------|---------|-------------|-------------|--------------|---------|-------------------|
|                                | 4Q10    | 3Q10    | 4Q09    | 4Q10 / 3Q10 | 4Q10 / 4Q09 | Dec. 10      | Dec. 09 | Dec. 10 / Dec. 09 |
| Miscellaneous<br>Accounts*     | 32,024  | 30,863  | 26,591  | 3.8%        | 20.4%       | 118,964      | 93,009  | 27.9%             |
| Contingents                    | 7,445   | 7,113   | 5,611   | 4.7%        | 32.7%       | 27,167       | 15,781  | 72.1%             |
| Payments and<br>Collections    | 15,900  | 15,376  | 14,025  | 3.4%        | 13.4%       | 59,786       | 51,022  | 17.2%             |
| Drafts and Transfers           | 7,105   | 7,321   | 6,883   | -2.9%       | 3.2%        | 27,764       | 24,146  | 15.0%             |
| Credit Cards                   | 16,029  | 15,284  | 14,155  | 4.9%        | 13.2%       | 59,792       | 47,862  | 24.9%             |
| Others                         | 41,632  | 44,882  | 42,282  | -7.2%       | -1.5%       | 168,303      | 136,248 | 23.5%             |
| Total Fee Income               | 120,136 | 120,839 | 109,546 | -0.6%       | 9.7%        | 461,775      | 368,067 | 25.5%             |

\* Saving Accounts, Current Accounts and Debit Card.

The positive evolution of fees is also related to the behavior of banking transactions, which experienced an 11.6% increase QoQ and 18.7% YoY. In disaggregated terms, electronic channels and new channels such as cell-phone banking contributed significantly to this growth. It is important to point out that the volume of transactions made through alternative electronic channels continues to rise as clients migrate from traditional teller services. In this context, the volume of teller transactions fell -1.5% this quarter and -7.3% in yearly terms. The impact of this evolution is reflected in the transaction costs, which boost the margins for these operations.

| N° de Transactions per channel | Quarter      |              |              | Change %    |             |
|--------------------------------|--------------|--------------|--------------|-------------|-------------|
|                                | Average 4Q10 | Average 3Q10 | Average 4Q09 | 4Q10 / 3Q10 | 4Q10 / 4Q09 |
| Teller                         | 9,949,522    | 10,105,034   | 10,733,475   | -1.5%       | -7.3%       |
| ATMs Via BCP                   | 10,312,343   | 8,957,045    | 8,193,738    | 15.1%       | 25.9%       |
| Balance Inquiries              | 3,468,512    | 2,931,377    | 2,593,456    | 18.3%       | 33.7%       |
| Telephone Banking              | 1,752,561    | 1,592,501    | 1,641,981    | 10.1%       | 6.7%        |
| Internet Banking Via BCP       | 12,815,523   | 11,458,877   | 10,466,538   | 11.8%       | 22.4%       |
| Agente BCP                     | 6,656,935    | 5,383,892    | 4,614,103    | 23.6%       | 44.3%       |
| Telecrédito                    | 5,397,323    | 4,725,407    | 4,424,750    | 14.2%       | 22.0%       |
| Mobile banking                 | 399,498      | 303,147      | 152,191      | 31.8%       | 162.5%      |
| Direct Debit                   | 450,729      | 417,399      | 401,154      | 8.0%        | 12.4%       |
| Points of Sale P.O.S.          | 4,768,425    | 4,273,894    | 3,911,271    | 11.6%       | 21.9%       |
| Other ATMs network             | 351,283      | 333,604      | 314,287      | 5.3%        | 11.8%       |
| Total transactions             | 56,322,654   | 50,482,176   | 47,446,943   | 11.6%       | 18.7%       |

Source: BCP

BCP's distribution channels (only in Peru) continue to grow. In 4Q10, the total number of points of contact grew 4.4%. This expansion was concentrated in growth in the number of BCP Agents, which continues to demonstrate the highest growth potential (+4.7% QoQ). Nevertheless, ATM growth remains high at 4.5% and new branch openings are once again on the rise. A YoY analysis shows that the total number of points of contact has increased by more than 800, which represents an expansion of 21%.

|             | Balance as of |       |       | Change % |       |
|-------------|---------------|-------|-------|----------|-------|
|             | 4Q10          | 3Q10  | 4Q09  | QoQ      | YoY   |
| Branches    | 327           | 324   | 334   | 0.9%     | -2.1% |
| ATMs        | 1,159         | 1,109 | 996   | 4.5%     | 16.4% |
| Agentes BCP | 3,513         | 3,354 | 2,801 | 4.7%     | 25.4% |
| Total       | 4,999         | 4,787 | 4,131 | 4.4%     | 21.0% |

Source: BCP

## II.6 Operating Expenses and Efficiency

After three consecutive quarters of improvements, the increase in spending in 4Q10 led to an increase in the efficiency ratio, which rose to 50.9%. This level represents the highest point of the new range within which the efficiency ratio should move after implementing a series of measures.

| Operating expenses<br>US\$ 000           | Quarter |        |        | Change % |        | Year to date |         | Change %          |
|--|---------|--------|--------|----------|--------|--------------|---------|-------------------|
|  | 4Q10    | 3Q10   | 4Q09   | QoQ      | YoY    | Dec. 10      | Dec. 09 | Dec. 10 / Dec. 09 |
| Salaries and employees benefits          | 105,187 | 95,404 | 89,486 | 10.3%    | 17.5%  | 389,997      | 328,469 | 18.7%             |
| Administrative, general and tax expenses | 81,579  | 67,549 | 79,622 | 20.8%    | 2.5%   | 282,779      | 266,363 | 6.2%              |
| Depreciation and amortizacion            | 18,796  | 17,392 | 16,153 | 8.1%     | 16.4%  | 69,448       | 58,709  | 18.3%             |
| Other expenses                           | 9,251   | 4,406  | 12,695 | 110.0%   | -27.1% | 25,853       | 38,882  | -33.5%            |

|                          |         |         |         |       |      |         |         |       |
|--------------------------|---------|---------|---------|-------|------|---------|---------|-------|
| Total operating expenses | 214,813 | 184,751 | 197,956 | 16.3% | 8.5% | 768,077 | 692,423 | 10.9% |
| Efficiency ratio         | 50.9%   | 46.3%   | 53.8%   |       |      | 49.1%   | 51.9%   |       |

Operating expenses demonstrated a significant increase this quarter, expanding 16.3% QoQ due to the seasonal effects which in the past have shown growth of around 19% in the 4thQs when compared to the average expenses of the 3 first quarters. This strong increase is seen in salaries and employee benefits as well as administrative expenses and others.

The increase in salaries and employee benefits is due in part to higher variable remuneration and incentive compensation programs, which correspond to strong portfolio growth this quarter as well as increases in salary levels due to market competitive pressures, all of which led to a quarterly expansion of 10.3%.

Administrative expenses grew 20% QoQ due to higher expenses for marketing, consultancy, legal expenses and systems, which are affected by seasonal components present at the end of each year.

Next, we will provide details on administrative expenses and their quarterly variations:

| Administrative Expenses<br>US\$ (000)       | Quarter |        |        |        |        |        | Change %    |             | Year to date |         | Change % |
|---|---------|--------|--------|--------|--------|--------|-------------|-------------|--------------|---------|----------|
|   | 4Q10    | %      | 3Q10   | %      | 4Q09   | %      | 4Q10 / 3Q10 | 4Q10 / 4Q09 | Dec 10       | Dec 09  |          |
| Marketing                                   | 11,291  | 13.8%  | 8,815  | 12.0%  | 11,152 | 14.0%  | 28.1%       | 1.2%        | 33,547       | 30,473  | 10.1%    |
| Systems                                     | 10,384  | 12.7%  | 9,270  | 11.8%  | 8,351  | 10.5%  | 12.0%       | 24.3%       | 37,000       | 34,563  | 7.0%     |
| Transport                                   | 6,213   | 7.6%   | 6,057  | 8.1%   | 6,342  | 8.0%   | 2.6%        | -2.0%       | 23,745       | 21,995  | 7.9%     |
| Maintenance                                 | 3,579   | 4.4%   | 2,971  | 3.7%   | 5,272  | 6.6%   | 20.5%       | -32.1%      | 11,755       | 13,767  | -14.6%   |
| Communications                              | 4,337   | 5.3%   | 3,857  | 7.0%   | 3,575  | 4.5%   | 12.4%       | 21.3%       | 16,539       | 13,022  | 26.9%    |
| Consulting                                  | 4,928   | 6.0%   | 3,076  | 6.6%   | 7,344  | 9.2%   | 60.2%       | -32.9%      | 14,729       | 21,030  | -30.0%   |
| Others                                      | 21,958  | 26.9%  | 17,621 | 28.4%  | 21,457 | 26.9%  | 24.6%       | 2.3%        | 78,794       | 77,871  | 1.2%     |
| Taxes and contributions                     | 7,946   | 9.7%   | 6,635  | 10.3%  | 5,813  | 7.3%   | 19.8%       | 36.7%       | 28,283       | 23,877  | 18.5%    |
| Other subsidiaries and<br>eliminations, net | 10,943  | 13.4%  | 9,247  | 12.1%  | 10,318 | 13.0%  | 18.3%       | 6.1%        | 38,388       | 29,765  | 29.0%    |
| Total Administrative<br>Expenses            | 81,579  | 100.0% | 67,549 | 100.0% | 79,622 | 100.0% | 20.8%       | 2.5%        | 282,779      | 266,363 | 6.2%     |

## II.7 Shareholders' Equity and Regulatory Capital

The significant expansion in loans increased capital requirements to cover credit risk capital requirement, which in turn translated into a BIS ratio of 12.8%. Additionally, ROAE experienced a contraction this quarter due to lower earnings and growth in net shareholders' equity.

| Shareholders' equity<br>US\$ 000 | Quarter   |           |         | Change % |       |
|----------------------------------|-----------|-----------|---------|----------|-------|
|                                  | 4Q10      | 3Q10      | 4Q09    | QoQ      | YoY   |
| Capital stock                    | 783,213   | 783,213   | 667,250 | 0.0%     | 17.4% |
| Reserves                         | 388,309   | 388,309   | 388,275 | 0.0%     | 0.0%  |
| Unrealized gains and losses      | 157,564   | 131,056   | 106,708 | 20.2%    | 47.7% |
| Retained earnings                | 187,143   | 187,143   | 115,922 | 0.0%     | 61.4% |
| Income for the year              | 476,316   | 374,750   | 397,378 | 27.1%    | 19.9% |
| Net shareholders' equity         | 1,992,545 | 1,864,471 |         |          |       |