

## FEDERAL RESERVE SYSTEM

Banco de Credito del Peru  
Lima, Peru

### Order Approving Establishment of an Agency

Banco de Credito del Peru (“Bank”), Lima, Peru, a foreign bank within the meaning of the International Banking Act (“IBA”), has applied under section 7(d) of the IBA (12 U.S.C. § 3105(d)) to establish an agency in Miami, Florida. The Foreign Bank Supervision Enhancement Act of 1991, which amended the IBA, provides that a foreign bank must obtain the approval of the Board to establish an agency in the United States.

Notice of the application, affording interested persons an opportunity to comment, has been published in a newspaper of general circulation in Miami, Florida (*Miami Herald*, March 7, 1997). The time for filing comments has expired, and the Board has considered the application and all comments received.

Bank, with total consolidated assets of \$6.4 billion, is the largest and oldest banking group in Peru.<sup>1</sup> Approximately 90 percent of Bank’s shares are owned by Credicorp, Ltd. (“Credicorp”), a holding company incorporated in Bermuda.<sup>2</sup> Bank’s remaining shares are traded on the Lima Stock Exchange and are widely held.

---

<sup>1</sup> Unless otherwise indicated all data are as of March 31, 2001.

Bank engages in commercial, retail, and investment banking activities through more than 220 domestic branches and offices. Bank also engages in leasing, consumer finance, mutual and investment fund management, asset securitization, and stock brokerage activities through its domestic subsidiaries. Outside of Peru, Bank operates branches in New York and the Bahamas, and representative offices in Chile and Colombia. In addition, Bank owns subsidiary banks in Bolivia and the Bahamas.

The proposed agency would offer trade-related and other corporate banking services to Bank's existing international customers. It also would offer private banking services to individuals and corporations.

In order to approve an application by a foreign bank to establish an agency in the United States, the IBA and Regulation K require the Board to determine that the foreign bank applicant engages directly in the business of

---

<sup>2</sup> Credicorp's shares are publicly traded in the United States and Peru. Approximately 16 percent of Credicorp's shares are owned by Mr. Dionisio Romero, the current chairman and chief executive officer of Credicorp, and his family. Atlantic Security Holding Corporation, a wholly owned Credicorp subsidiary, owns 10.8 percent of Credicorp's shares, and the Capital Group Companies, Inc., Los Angeles, California, an unaffiliated holding company for investment management companies, owns 9.8 percent of Credicorp's shares. Credicorp's remaining shares are widely held, with no single shareholder or shareholding group controlling more than 5 percent. In addition to Bank,

banking outside the United States and has furnished to the Board the information it needs to assess the application adequately. The Board also shall take into account whether the foreign bank and any foreign bank parent are subject to comprehensive supervision or regulation on a consolidated basis by its home country supervisor (12 U.S.C. § 3105(d)(2); 12 C.F.R. 211.24).<sup>3</sup> The Board may also take into account additional standards as set forth in the IBA and Regulation K (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)-(3)).

The IBA includes a limited exception to the general requirement relating to comprehensive, consolidated supervision (12 U.S.C. § 3105(d)(6)). This exception provides that, if the Board is unable to find that a foreign bank seeking to establish a branch, agency, or commercial lending company is subject to

---

Credicorp owns banks in the Cayman Islands, Colombia, and El Salvador, that respectively have offices in the United States, Panama, and Venezuela.

<sup>3</sup> In assessing this standard, the Board considers, among other factors, the extent to which the home country supervisors: (i) ensure that the bank has adequate procedures for monitoring and controlling its activities worldwide; (ii) obtain information on the condition of the bank and its subsidiaries and offices through regular examination reports, audit reports, or otherwise; (iii) obtain information on the dealings with and relationship between the bank and its affiliates, both foreign and domestic; (iv) receive from the bank financial reports that are consolidated on a worldwide basis or comparable information that permits analysis of the bank's financial condition on a worldwide consolidated basis; (v) evaluate prudential standards, such as capital adequacy and risk asset exposure, on a worldwide basis. These are indicia of comprehensive, consolidated supervision. No single factor is essential, and other elements may inform the Board's determination.

comprehensive supervision or regulation on a consolidated basis by the appropriate authorities in its home country, the Board may nevertheless approve an application by such foreign bank if: (i) the appropriate authorities in the home country of the foreign bank are actively working to establish arrangements for the consolidated supervision of such bank; and (ii) all other factors are consistent with approval (12 U.S.C. § 3105(d)(6)(A)). In deciding whether to exercise its discretion to approve an application under authority of this exception, the Board shall also consider whether the foreign bank has adopted and implemented procedures to combat money laundering. The Board also may take into account whether the home country of the foreign bank is developing a legal regime to address money laundering or is participating in multilateral efforts to combat money laundering (12 U.S.C. § 3105(d)(6)(B)).

As noted above, Bank engages directly in the business of banking outside the United States. Bank also has provided the Board with information necessary to assess the application through submissions that address the relevant issues.

With respect to supervision by Bank's home country authorities, the Board has considered the following information. Bank is supervised by the Peruvian Superintendency of Banks and Insurance ("Superintendency"). The

Superintendency is primarily responsible for the regulation and supervision of Peruvian financial institutions, including their foreign offices, subsidiaries, and affiliates. The Superintendency issues and promulgates supervisory regulations concerning asset quality, capital adequacy, liquidity, consolidated financial statements, loan classifications and loan loss reserves, transactions with affiliates and related parties, and credit, market, and operational risks, among other matters. The Superintendency is responsible for monitoring, inspecting, and assessing the management, operations, and asset quality of financial institutions. In addition, the Superintendency monitors compliance by financial institutions with applicable laws and regulations and may order preventive measures and impose sanctions on financial institutions.

The Superintendency conducts on-site examinations of financial institutions annually and may conduct special targeted examinations if circumstances merit such inspections. During these reviews, the Superintendency evaluates information on the institutions' foreign offices and domestic and foreign affiliates. For off-site monitoring purposes, the Superintendency requires extensive reporting from the institutions it supervises, including daily, monthly, quarterly, and semiannual data covering, among other matters, consolidated

financial condition, liquidity, capital adequacy, internal audit findings, and transactions with affiliates and related parties.<sup>4</sup>

The Superintendency requires consolidated financial statements, including information on banks' foreign branches and domestic and foreign subsidiaries, to be submitted annually by an external auditor approved by the Superintendency. Auditors also are required to submit an opinion letter and an unpublished report on the bank's internal controls and loan portfolio.

Peruvian law extends the Superintendency's regulatory jurisdiction to financial conglomerates.<sup>5</sup> For organizations such as Credicorp, whose top-tier companies are not domiciled in Peru but whose consolidated operations are

---

<sup>4</sup> Under Peruvian law, the maximum amount that a financial institution may lend to a borrower on an aggregate basis ranges, depending on the type of collateral, from 10 percent to 30 percent of total capital. The total amount of loans to directors, employees, or close relatives of such persons may not exceed 7 percent of a bank's paid-in capital and reserves, and all loans made to any related party borrower may not exceed 0.35 percent of paid-in capital (i.e., 5 percent of the overall 7 percent limit). In addition, the aggregate amount of loans, investments, and contingencies granted to related party borrowers, considered as an economic group, may not exceed 75 percent of a bank's effective capital. All loans to related parties must be made on terms no more favorable than those available to the public.

<sup>5</sup> A "financial conglomerate" consists of a group of companies, related through control or ownership, carrying out financial, insurance, or securities activities. Regulations implementing the 1996 Banking Law's provisions on financial conglomerates became effective in June 2000.

predominately in Peru, the supervised companies within the organization (including Bank, in Credicorp's case) are required to provide the Superintendency with financial and other information necessary to supervise the group on a consolidated basis.<sup>6</sup> In addition, the Superintendency coordinates with relevant foreign authorities (in Bank's case, the supervisors of Bank's foreign bank affiliates) for purposes of information-sharing and arranging for on-site examinations by Superintendency examiners. The Superintendency may order Bank to take measures to reduce risks arising from within the conglomerate, including limiting operations with affiliates or involving common customers. Such

---

<sup>6</sup> Bank is required to submit quarterly and annual consolidated financial statements for the conglomerate and for any consolidated group within the conglomerate (considering financial companies as one group and insurance companies as another) and reports on consolidated shareholders' equity, capital requirements, consolidated limits, investments, and reinsurance operations. It also must provide information on the conglomerate's methods for identifying and controlling risks, the relationship between shareholders, members, directors, managers, principal officers and advisors of the conglomerate, and the structure of the property and management of the conglomerate. The annual financial statements must be audited, and external auditors must evaluate the procedures used in preparing and the reasonableness of the consolidated financial statements, significant accounting practices, internal controls, and compliance with applicable legal limits. Bank's internal auditing division is required to include in its annual internal controls report to the Superintendency an analysis of the conglomerate's means of identifying and controlling risks.

actions also may be taken when, due to a lack of information, the Superintendency determines that it cannot adequately evaluate the risks incurred by Bank.

Credicorp monitors the activities and operations of its subsidiaries, including Bank, through regular internal reporting requirements and annual internal audits. Credicorp has adopted uniform internal control and auditing policies and procedures applicable to all companies in the group. Bank's audit department serves as a centralized internal audit department for the group and reports directly to Credicorp's board of directors. Internal audits are conducted annually and include an evaluation of internal control systems and procedures, a review of financial statements, and monitoring for compliance with policies and procedures for the prevention of money laundering. The proposed agency would be subject to annual internal audits and the same internal reporting requirements as Bank's existing New York branch.

The Peruvian government has taken steps to combat money laundering. In the past decade, Peru has enacted and strengthened legislation to prevent money laundering, and the Superintendency has issued implementing regulations. The regulations generally require each financial institution to establish a system of money laundering prevention incorporating employee training, a "know your customer" policy and monitoring system, a system for detecting,



reporting, and preventing suspicious transactions, and a designated individual responsible for compliance. Each financial institution's anti-money laundering policies and procedures are subject to review by external auditors and the Superintendentcy.

Bank and Credicorp have implemented policies and procedures throughout their worldwide operations to detect and prevent money laundering, incorporating the institution-specific recommendations of the Financial Action Task Force. These policies and procedures include a "know your customer" policy, which focuses both on the initial establishment of the customer relationship as well as on-going maintenance of customer information in order to identify possible illegal transactions.

Based on all the facts of record, the Board has determined that Bank's home country supervisory authority is actively working to establish arrangements for the consolidated supervision of Bank, and that considerations relating to the steps taken by Bank and its home country to combat money laundering are consistent with approval under this standard.

The Board has also taken into account the additional standards set forth in the IBA (12 U.S.C. § 3105(d)(3)-(4); 12 C.F.R. 211.24(c)(2)). The Superintendency has no objection to establishment of the proposed agency.

Bank must comply with the minimum capital standards of the Basel Capital Accord (“Accord”), as implemented by Peru. Bank’s capital is in excess of the minimum levels that are required by the Accord and is considered equivalent to the capital that would be required of a U.S. banking organization. Managerial and other financial resources of Bank are also considered consistent with approval, and Bank appears to have the experience and capacity to support the proposed agency. Bank has established controls and procedures for the proposed agency to ensure compliance with U.S. law, as well as controls and procedures for its worldwide operations generally.

With respect to access to information about Bank’s operations, the Board has reviewed the restrictions on disclosure in relevant jurisdictions in which Bank operates and has communicated with relevant government authorities regarding access to information. Bank and Credicorp have committed to make available to the Board such information on the operations of Bank and any of its affiliates that the Board deems necessary to determine and enforce compliance with the IBA, the Bank Holding Company Act of 1956, as amended, and other

applicable federal law. To the extent that the provision of such information to the Board may be prohibited by law, Bank and Credicorp have committed to cooperate with the Board to obtain any necessary consents or waivers that might be required from third parties for disclosure of such information. In addition, subject to certain conditions, the Superintendent may share information on Bank's operations with other supervisors, including the Board. In light of these commitments and other facts of record, and subject to the condition described below, the Board concludes that Bank and Credicorp have provided adequate assurances of access to any necessary information that the Board may request.

On the basis of all the facts of record, and subject to the commitments made by Bank and Credicorp, as well as the terms and conditions set forth in this order, the Board has determined that Bank's application to establish an agency should be, and hereby is, approved. Should any restrictions on access to information on the operations or activities of Bank and its affiliates subsequently interfere with the Board's ability to obtain information to determine and enforce compliance by Bank or its affiliates with applicable federal statutes, the Board may require or recommend termination of any of Bank's direct or indirect activities in the United States. Approval of this application also is specifically conditioned on compliance by Bank and its affiliates with the commitments made in connection

with this application and with the conditions in this order.<sup>7</sup> The commitments and conditions referred to above are conditions imposed in writing by the Board in connection with its decision and may be enforced in proceedings under 12 U.S.C. § 1818 against Bank and its affiliates.

By order of the Board of Governors,<sup>8</sup> effective August 9, 2001.

(signed)

---

Robert deV. Frierson  
Deputy Secretary of the Board

---

<sup>7</sup> The Board's authority to approve the establishment of the proposed agency parallels the continuing authority of the State of Florida to license offices of a foreign bank. The Board's approval of this application does not supplant the authority of the State of Florida, or its agent, the Florida Department of Banking and Finance ("Department"), to license the proposed office of Bank in accordance with any terms or conditions that the Department may impose.

<sup>8</sup> Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Kelley, Meyer, and Gramlich.