December 4, 2017

RE: Credit Rating for Peruvian Sovereign Bonds ("Bonos Soberanos")

Executive Summary:

This letter is in response to your request for ratings from Egan-Jones Ratings Co. ("Egan-Jones") on the Peruvian Sovereign Bonds (the "Bonds" or "Bonos Soberanos") listed below and described more completely in Appendix I. The Bonds were issued between 2004 and 2014 by the Republic of Peru's ("Peru"). The Bonds are currently paying but other bonds of Peru are not, as described more completely in "Willingness to Pay" section below. Our concern is that while Peru currently has the ability to pay the Bonds, it has been lacking in its willingness to pay and at least in Egan-Jones' opinion, a willingness to act in an even-handed manner with its creditors. In addition, since the governing law of the Bonds is Peruvian law and any legal proceeding between holders of the Bonds ("Bondholders") and the issuer, Peru, will be adjudicated in Peruvian courts, there is significant uncertainty regarding the ability of Bondholders to adequately enforce their rights to payment if Peru elects not to pay the Bonds in accordance with their stated terms.

Based on our view of the information described below, and subject to the qualifications listed below, we hereby affirm the rating of "BB-" to the Bonds with a developing watch[1]. ***Note, Egan-Jones is not an NRSRO (as defined by the Securities and Exchange Commission of the U.S.) for the purposes of sovereign and municipal issuers.***

Rating Rationale:

Assigning an appropriate rating to the Bonds rests on several factors:

- the underlying credit quality of Peru,
- Peru's willingness to pay,
- Peru's willingness to act in an even-handed manner with creditors, and
- the governing law and jurisdiction of the Bonds.

Credit Quality of Peru:

As indicated in Appendix I, the Bonds were issued by Peru, the credit quality of which we view as fairly high. In 2016, the overall economy recovery was seen I Peru with the evidence of GDP growth of 3.9% compared to the prior year's 3.3%. Although Peru experienced expanding current account deficit and fiscal deficit in 2016, Peru's credit ratios are still in the top range of the rating table, which indicates its strong credit

[1] According to Egan-Jones methodology, Egan-Jones derives its "watch" assignments from the differences between current and projected ratings. The absence of a projected rating is denoted by a "developing" watch.

quality.

Peru ratios	2012	2013	2014	2015	2016
Government Debt/GDP (%)	20.5	20.3	20.7	23.0	25.6
Government Surplus/Deficit to GDP (%)	2.3	0.9	-0.1	-2.1	-2.6
Nominal GDP Growth (%)	6.0	5.9	2.4	3.3	3.9

Indicative Credit Ratios	AA	A	BBB	BB	B	CCC
Government Debt/ GDP (%)	100	115	130	145	170	200
Government Surplus/Deficit to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Nominal GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0

Willingness to Pay and Act in Even-Handed Manner; Governing Law & Jurisdiction of the Bonds:

While Peru has a relatively strong ability to pay, its willingness to pay is lacking. More specifically, Peruvian Land Reform Bonds (the "Land Reform Bonds") were issued between 1969 and 1982 under the Republic of Peru's ("Peru") New Agrarian Reform Decree Law No. 17716. The Land Reform Bonds were issued to compensate, albeit at a discount, landholders who had been expropriated as part of Peru's agrarian reform policy. The bonds were denominated in Soles Oro, Peru's currency at the time, which has since been replaced first by the Inti in 1985 and then by the Nuevo Sol in 1991. Since the first issuance of the rating last year, we did not see any material change on the Land Reform Bonds. The Land Reform Bonds remain unpaid and are experiencing current and ongoing default. Successive Peruvian governments have made efforts to avoid this obligation. Although in January 2014, the Ministry of Economy and Finance ("MEF") issued the valuation formulas through Supreme Decrees 017-2014-EF and 019-2014-EF in order to update outstanding principal value of the Land Reform Bonds, the MEF's formulas appear to eliminate nearly the entire amount owed under the Land Reform Bonds.[2] Moreover, the MEF mentioned that it has to balance Peru's fiscal

[2] For example, Peru issued a 1,000,000 Soles Oro Class A Bond (Serial Number 12997) on August 24, 1970 with a 6% stated interest rate and 20 year maturity. Under the traditional CPI methodology used throughout Peru, the amount owed under this Bond would be 16,041,031 Nuevo Soles as of April 30, 2015. However, under the MEF's formulas, the amount owed under this Bond would only be 26,662 Nuevo Soles as of April 30, 2015 (approximately 0.17% of the amount owed under the CPI methodology).

ability and financial sustainability with the obligation to pay the Land Reform Bonds. The Guidelines also set out a “mandatory” procedure for bondholder claims. To initiate that administrative procedure, however, any bondholder that is a party to ongoing judicial proceedings seeking payment of the value of the Land Reform Bonds must first “abandon” with prejudice those proceedings and any rights to participate in any other legal proceedings in the future. Peru has restructured its sovereign debt several times in the past. But it has never asked creditors to waive their procedural rights just to reconcile the amount due.

The laws of Peru also apply to currently performing Bonos Soberanos issued by Peru and the MEF’s valuation formulas and payment priority rules were issued in accordance with the instructions of the Peruvian Constitutional Tribunal (the highest Constitutional Court in Peru). Therefore, it is entirely possible that the Supreme Decrees may serve as a precedent for Peruvian courts, applying the governing law of Peru, to (i) rule that Bondholders are not entitled to the full amount of interest and principal due on the Bonds, and (ii) subordinate the rights of certain Bondholders (e.g. financial institutions that purchased the bonds on the secondary market) to other creditors of Peru based on their status as a natural person or entity and as an original or secondary purchaser. The precedent being set at the highest levels of both the executive and judicial branches of the Peruvian government with respect to the Land Reform Bonds negatively impacts our view of the Bonos Soberanos and potentially other sovereign debt issued under Peruvian law.

Nota Bene:

According to EJR rating methodology, “Character - the integrity of management or in the case of sovereigns, leadership, structure, and policy” - is the first of the five key assessment criteria to evaluate credit quality. The creditors’ rights of Bonos Soberanos are potentially truncated by the instructions of the Peruvian Constitutional Tribunal and the Supreme Decrees. We view the Peruvian government’s poor character of fulfilling its obligations with respect to the Land Reform Bonds as a significant credit weakness, which drives our credit rating on the Bonos Soberanos rated herein.

Conclusion:

After considering the underlying credit quality of Peruvian government, the willingness to pay by the Peruvian government, its refusal to deal in an even-handed manner with its creditors and the lack of certainty regarding the ability of Bondholders to enforce their rights in Peruvian courts, our decision was to affirm the ratings listed in the Executive Summary. Attached in the Appendices is additional information. We conclude that Peru has the ability but lacks the willingness to honor this and perhaps other debts in the future.

Appendix I

Peruvian Sovereign Bonds

SOVEREIGN BONDS	Identifier	Ticker	Issue Date	Maturity Date
Peru Government Bond	ED5393639	PERUGB	7/13/2004	7/13/2019
Peru Government Bond	ED6454448	PERUGB	10/13/2004	10/13/2024
Peru Government Bond	ED8027770	PERUGB	1/31/2005	1/31/2035
Peru Government Bond	EF0130734	PERUGB	7/8/2005	8/12/2017
Peru Government Bond	EF0252694	PERUGB	7/18/2005	8/12/2020
Peru Government Bond	EF3972553	PERUGB	5/3/2006	8/12/2026
Peru Government Bond	EF9307051	PERUGB	11/28/2006	8/12/2046
Peru Government Bond	EG6650006	PERUGB	7/26/2007	8/12/2037
Peru Government Bond	EH3330816	PERUGB	4/24/2008	8/12/2031
Peru Government Bond	EI1294947	PERUGB	1/27/2010	2/12/2042
Peru Government Bond	EJ2547119	PERUGB	6/22/2012	9/12/2023
Peru Government Bond	EJ6082030	PERUGB	1/4/2013	1/4/2026
Peru Government Bond	EJ7536562	PERUGB	7/10/2013	2/12/2018
Peru Government Bond	EJ7536760	PERUGB	7/10/2013	2/12/2029
Peru Government Bond	EK6432471	PERUGB	5/30/2014	5/30/2034
Peru Government Bond	EK3807386	PERUGB	7/9/2014	2/12/2055
Peru Government Bond	EK4508967	PERUGB	7/31/2014	2/12/2054
Peru Government Bond	EK4554466	PERUGB	8/15/2014	2/12/2040
Peru Government Bond	EK4554342	PERUGB	8/22/2014	2/12/2030
Peru Government Bond	EK5799607	PERUGB	11/7/2014	8/12/2024

SEC Rule 17g-7(a) Disclosure

Below are the disclosures as required by Paragraph (a) of Rule 17g7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:
For by Peruvian Sovereign Bonds ("Bonos Soberanos") issued by Peruvian government we have assigned the rating of BB-. There are three notches in our rating categories (e.g., A-, A, and A+) other than those deep into speculative grade; for CC, C, and D there are no notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:
We are using methodology available in our Form NRSRO Exhibit #2 dated Oct 6, 2017 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:
The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to the report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:
Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:
Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied used in determining the credit rating. The data is sourced from publicly-available 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources and in the case of private issuers, information provided mainly by issuers. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:
EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:
Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers.) Re. surveillance, the minimum time period for corp. issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:
EJR uses 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources for ratings on publicly-traded issuers and in the case of private issuers, on information provided mainly by issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7: The information is generally high quality and readily avail.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:
EJR is paid by a person other than the obligor, issuer, underwriter, depositor or sponsor to determine this credit rating.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:
Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability and in turn, our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:
Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:
Below is a summary of the impact of the 2 assumptions which independently would have the greatest impact on our "Implied rating":

	Assumptions			**Resulting Implied Rating**		
	Base	Case 1	Case 2	Base	Case 1	Case 2
Total Debt / GDP (%)	17.5	20	15	BB-	BB-	BB-
Interest Expense / Taxes (%)	5.8	6.5	5.2	BB-	BB-	BB-
Nominal GDP Growth (%)	8.8	9.6	8.0	BB-	BB-	BB-
Repayment on Land Reform Bonds	No	Yes		BB-	BBB-	
Fairly treatment on Land Reform Bond Bondholders	No	Yes		BB-	BBB-	

14. If the credit rating is assigned to an asset-backed security, a description of: (1) the representations, warranties, and enforcement mechanisms available to investors; and (2) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:
This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

1) No part of the credit rating was influenced by any other business activities,
2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature | **Today's Date**

Steve Zhang

Dec 4, 2017

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Steve Zhang
Sr. Rating Analyst

Reviewer Signature

Caroline Ding

Dec 4, 2017

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Caroline Ding
Rating Analyst

Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that the its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.