
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934
OR
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998
OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-14014

CREDICORP LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

(Jurisdiction of incorporation or organization)

Clarendon House
Church Street
Hamilton HM 11
Bermuda

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares, par value \$5.00 per share	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares, par value \$5.00 per share 94,382,317

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17

Item 18 X

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PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise specified or the context otherwise requires, references to “\$,” “US\$,” “Dollars” and “U.S. Dollars” are to United States dollars and references to “S/,” “Nuevo Sol” or “Nuevos Soles” are to Peruvian nuevos soles. The Nuevo Sol replaced the “Inti” as the currency of Peru in September 1991, with one Nuevo Sol equaling 1,000,000 Intis. The Inti, in turn, had replaced the “sol” in February 1985, with one Inti equaling 1,000 soles. Monetary amounts corresponding to dates or periods prior to September 1991 are stated in their Nuevo Sol equivalent rather than in Intis or soles. Each Nuevo Sol is divided into 100 céntimos (cents).

Credicorp Ltd., a Bermuda limited liability company (together with its consolidated subsidiaries, “Credicorp”), maintains its financial books and records in U.S. Dollars and presents its financial statements in accordance with International Accounting Standards (“IAS”). For a discussion of certain differences between IAS and United States generally accepted accounting principles (“U.S. GAAP”), together with a reconciliation of net income and shareholders’ equity to U.S. GAAP for Credicorp, see Note 20 to Credicorp’s consolidated financial statements for the years ended December 31, 1996, 1997 and 1998 (the “Credicorp Consolidated Financial Statements”) included elsewhere herein. Because of the relative size of Banco de Crédito del Perú, a Peruvian corporation (together with its consolidated subsidiaries, “BCP”), compared to Credicorp, for consolidation purposes, BCP has been treated as the predecessor entity to Credicorp, and Atlantic Security Holding Corporation, a Cayman Islands corporation (together with its consolidated subsidiaries, “ASHC”), and El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros, a Peruvian corporation (together with its consolidated subsidiaries, “PPS”), have been treated as significant acquisitions by BCP and accounted for under the purchase method of accounting. The asset and liabilities of Banco Capital and Banco Tequendama have been incorporated at their corresponding estimated fair values on the acquisition dates. See “Item 8. Selected Financial Data—(b) Selected Financial Data.”

In addition to the Nuevo Sol amounts translated into U.S. Dollars for the purpose of preparing the Credicorp Consolidated Financial Statements (see Note 2 to the Credicorp Consolidated Financial Statements and “Item 8. Selected Financial Data—(b) Selected Financial Data”), this Annual Report contains certain Nuevo Sol amounts translated into U.S. Dollars at specified rates solely for the convenience of the reader. Neither of these translations should be construed as representations that the Nuevo Sol amounts actually represent such equivalent U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of the dates mentioned herein or at all. Unless otherwise indicated (see specifically Note 3 to the Credicorp Consolidated Financial Statements and “Item 8. Selected Financial Data—(b) Selected Financial Data”), such U.S. Dollar amounts have been translated from Nuevos Soles at an exchange rate of S/3.13 = US\$1.00, the December 31, 1998 exchange rate set by the Peruvian *Superintendencia de Banca y Seguros* (the Superintendency of Banks and Insurance, or “SBS”). The average of the bid and offered exchange market rates published by SBS for June 8, 1999 was S/3.342 per US\$1.00. The translation of amounts expressed in nominal or constant Nuevos Soles with purchasing power as of a specified date by the then prevailing exchange rate may result in presentation of U.S. Dollar amounts that differ from the U.S. Dollar amounts that would have been obtained by translating nominal or constant Nuevos Soles with purchasing power as of another specified date by the prevailing exchange rate on that specified date. See “Item 6. Exchange Controls and Other Limitations Affecting Security Holders—(a) Exchange Controls” for information regarding the average rates of exchange between the Nuevo Sol (or predecessor currencies) and the U.S. Dollar for the periods specified therein. The Federal Reserve Bank of New York does not publish a noon buying rate for Peruvian Nuevos Soles.

Unless otherwise specified, the individual financial information for BCP, ASHC and PPS included herein has been derived from the audited consolidated financial statements of each such entity.

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Annual Report that are not historical facts, including, without limitation, certain statements made in the sections hereof entitled “Item 1. Description of Business,” “Item 8. Selected Financial Data,” “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Item 9A. Qualitative and Quantitative Disclosures about Market Risk” are statements of future expectations and other forward-looking statements that are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation, (i) general economic conditions, including in particular economic conditions in Peru, (ii) performance of financial markets, including emerging markets, (iii) the frequency and severity of insured loss events, (iv) interest rate levels, (v) currency exchange rates, including the Nuevo Sol/U.S. Dollar exchange rate, (vi) increasing levels of competition in Peru and other emerging markets, (vii) changes in laws and regulations, (viii) changes in the policies of central banks and/or foreign governments, and (ix) general competitive factors, in each case on a global, regional and/or national basis. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

PART I

ITEM 1. DESCRIPTION OF BUSINESS

(a) General

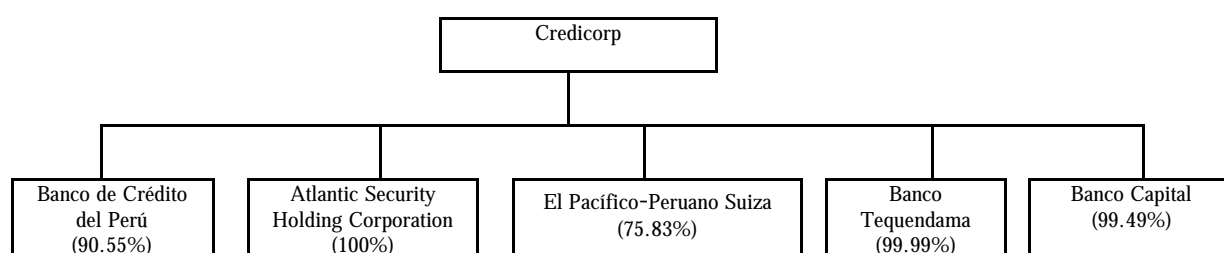
Credicorp is the largest financial services holding company in Peru. Credicorp is engaged principally in commercial banking (including trade finance and leasing), capital market activities (including corporate finance, brokerage services, asset management, and trust, custody and proprietary trading and investment) and insurance (including commercial property, transportation and marine hull, automobile, life, health and pension fund underwriting insurance). As of December 31, 1998, Credicorp's total assets were US\$8.0 billion and shareholders' equity was US\$752.4 million, and for 1997 and 1998 net income was US\$110.1 million and US\$42.1 million, respectively. See "Presentation of Financial Information," the Credicorp Consolidated Financial Statements, "Item 8. Selected Financial Data" and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations." The following table presents certain financial information for Credicorp by principal business segment as of and for the year ended December 31, 1998 (see Note 17 to the Credicorp Consolidated Financial Statements):

	Year ended December 31, 1998		
	Total <u>Revenues</u>	Operating <u>Income</u>	Total <u>Assets</u>
	<i>(U.S. Dollars in millions)</i>		
Commercial Banking	US\$1,054	US\$392	US\$7,507
Insurance	135	32	332
Capital Markets	<u>21</u>	<u>4</u>	<u>113</u>
Credicorp	<i>US\$1,210</i>	<i>US\$428</i>	<i>US\$7,952</i>

Credicorp conducts its commercial banking and investment banking activities primarily through BCP, the largest (in terms of total assets and net income) full service Peruvian commercial bank ("Peruvian commercial bank," "Peruvian insurance company" and similar terms when used in this Annual Report do not include the assets, results or operations of any foreign parent company of such Peruvian entity or the foreign subsidiaries thereof), and ASHC, a diversified financial services company. Credicorp's insurance activities are conducted through PPS, the largest (in terms of premiums written and net income) Peruvian insurance company.

Credicorp was formed in 1995 for the purpose of acquiring through an exchange offer (the "Exchange Offer") the common shares of BCP, ASHC and PPS. Pursuant to the Exchange Offer, in October 1995, Credicorp acquired 90.1% of BCP; 98.2% of ASHC; and 75.8% of PPS. Credicorp acquired in March 1996, pursuant to an exchange offer, the remaining 1.8% outstanding shares of ASHC. Credicorp also owns 99.99% of Inversiones Credito, which is a non-financial entity with assets of US\$59.7 million the main investment of which is a 40% stake in the private Peruvian pension fund manager, AFP Union. In January 1997, Credicorp purchased 99.99% of a Colombian banking concern, Banco Tequendama, which has US\$362.9 million in assets in addition to a minor presence in Venezuela. In December 1997, Credicorp purchased 97% of Banco Capital, a Salvadoran bank which has US\$126.2 million in assets, and 100% of Casa de Bolsa Capital, a Salvadoran brokerage firm which has US\$19.4 million in assets under management, for US\$5.9 million and US\$800,000,

respectively. Subsequently, Credicorp acquired an additional 2.49% of Banco Capital, bringing Credicorp's total ownership to 99.49%. See “—(m) Formation of Credicorp.” In 1997, Credicorp acquired 39.5% of Banco de Crédito de Bolivia (“BCB”) from BCP for US\$9.2 million. In July 1998, Credicorp acquired 97% of Banco de La Paz, a Bolivian bank with US\$52.1 million in assets, which was subsequently merged with BCB in January 1999, at which time Credicorp also increased its ownership of BCB to 55.48%, with BCP owning, directly or indirectly, 44.39%. The following tables show the organization of Credicorp and its principal subsidiaries as of December 31, 1998 and their relative percentage contribution to Credicorp's total assets, total revenues, net income and stockholders' equity as of December 31, 1998:



	As of and for the year ended December 31, 1998(1)			
	Total Assets	Total Revenue	Net Income (Loss)	Stockholders' Equity
Banco de Crédito del Perú	83.3%	81.9%	73.9%	62.2%
Atlantic Security Holding Corporation	6.4%	3.7%	35.3%	14.3%
El Pacífico-Peruano Suiza	4.1%	7.3%	20.0%	11.9%
Banco Tequendama	3.3%	5.2%	(16.8)%	5.7%
Banco Capital	1.6%	0.9%	1.3%	2.8%
Others	1.3%	0.1%	(13.7)%	3.1%

(1) Percentages determined based on the Credicorp Consolidated Financial Statements.

Strategy

The difficult operating environment faced by Credicorp during 1998 reinforced its strategy of enhancing shareholder value through measures that strengthen its balance sheet and risk management, emphasize its focus on customers, and increase profitability. Credicorp has prepared itself to take advantage of an economic recovery that management expects in the markets where we operate.

Credicorp's strategy of maintaining a strong financial condition allowed it to withstand adverse economic conditions felt during 1998, brought on by the “El Niño” weather phenomenon and the international financial crisis. That strategy requires relatively high provisions for loan losses, which should continue to be made to ensure a high reserve coverage.

Special efforts were taken to improve Credicorp's risk evaluation processes and collection procedures. Credit evaluation procedures were reviewed and tightened to ensure better risk administration and to preserve the quality of the portfolio. Three centralized units — risks analysis, loan

recovery and follow-up — were created for this purpose. All loans originating from Middle Market and Retail Banking are being approved through these specialized units.

Credicorp insists on maintaining the highest quality standards in providing each of its products and services, as we seek to increase the satisfaction of a growing number of clients. Credicorp's strategy is to face its competitors with higher quality products and more efficient services, and a key element of the strategy is continuing investment in technology and human resources.

Credicorp made a number of important improvements to the quality of its products and services in 1998, particularly in the quality of our Peruvian distribution network and our international structure for implementing transactions. We increased the number of teller windows by 28%, and ATMs by 32%, offered a number of new services, and reduced process times in other cases. Particularly in Retail Banking, we further improved our client focus by identifying particular customer groups and creating new business units to provide each group with its own set of specially designed products and services.

In terms of operating efficiencies, Credicorp continued to seek the integration of its principal business units and the consolidation of its position as Peru's leading provider of financial services during 1998. To date, a substantial number of operations and functions that were considered inefficient or redundant have been either consolidated, restructured or eliminated. The benefits of the cost reduction program applied in 1997, which consisted of a thorough analysis and reassessment of staff functions, were felt during 1998 and will continue to enhance operating efficiencies through on-going programs and streamlined procedures.

Credicorp has achieved significant distribution efficiencies by cross-selling products through BCP's nationwide branch network, particularly by incorporating Credicorp's personal insurance and pension fund businesses and certain services provided to Solución, into BCP's sales and delivery systems. During 1998, Credicorp's overall strategy of growing new retail lines to offset decreasing financial margins in traditional wholesale lines was not aggressively applied due to the high credit risk and market risk environment. Credicorp focused instead on taking advantage of lower risk business opportunities and increasing the corporate portfolio and the generation of fee income.

Credicorp has made efforts in recent years to diversify its earnings base by expanding into select Latin American markets outside Peru where its size and market knowledge provide it with a competitive advantage. Recent examples of these efforts include Credicorp's purchases of Colombia's Banco Tequendama in January 1997, El Salvador's Grupo Capital in December 1997, and Bolivia's Banco de La Paz and Banco Boliviano Americano's loans and deposits in July 1998 and May 1999, respectively. See “—(b) Commercial Banking.” Credicorp may review additional acquisition candidates from time to time, and also form other strategic relationships with companies to the extent consistent with these efforts, as in the case of BCP's memorandum of understanding with Banco Popular Español of Spain establishing a basis for mutual cooperation between these institutions, and BCP's participation as a network partner in Conexión Américas, Bank of America's treasury management system. As a result of such recent acquisitions, management believes that it has now positioned itself in each of the regional markets of choice. Therefore, Credicorp intends to focus its future efforts on the consolidation of each entity within its respective market and into the group as a whole.

Credicorp's common stock, par value US\$5.00 per share (the "Common Shares"), is listed on both the New York Stock Exchange, Inc. and the Lima Stock Exchange, and is quoted in U.S. Dollars on each such Exchange. See "Item 5. Nature of Trading Market— (a) General."

(b) Commercial Banking

The majority of Credicorp's commercial banking business is carried out through BCP, Credicorp's largest subsidiary and the largest and oldest bank in Peru. At December 31, 1998, BCP ranked first among Peruvian banks with S/20.4 billion (US\$6.5 billion) in total assets, S/14.1 billion (US\$4.5 billion) in loans, S/15.5 billion (US\$5.0 billion) in deposits and S/1,639 million (US\$524 million) of shareholders' equity. Net income for 1997 and 1998 was S/297.9 million (US\$95.2 million) and S/186.6 million (US\$59.6 million), respectively. As of December 31, 1998, BCP's loans represented approximately 23.0% of the Peruvian banking system and BCP's deposits represented approximately 28.9% of the Peruvian banking system, changing from 23.6% and 28.6%, respectively, as of December 31, 1997. At December 31, 1998, BCP had the largest branch network of any commercial bank in Peru with 210 branches, including 106 in Lima and the adjoining city of Callao. BCP also operates foreign branches in New York and Nassau, Bahamas, and has representative offices in Bogota, Colombia, and Santiago, Chile. In addition, BCP has a Bahamian banking subsidiary.

A portion of Credicorp's commercial banking business is also carried out by ASHC, which principally serves Peruvian private banking customers through offices in Panama, Miami and Lima. At December 31, 1998, ASHC had total assets of US\$930.9 million and shareholders' equity of US\$186.3 million (compared with US\$1,089.0 million and US\$299.3 million, respectively, at December 31, 1997). ASHC's net income decreased to US\$9.2 million in 1998 from US\$31.2 million in 1997, which in turn decreased from US\$35.6 million in 1996. The significant decrease from 1997 to 1998 was principally the result of unrealized losses on ASHC's securities portfolio. Loans outstanding, net of provisions, in ASHC's portfolio totaled US\$301.1 million, US\$310.0 million and US\$304.9 million at December 31, 1996, 1997 and 1998, respectively, representing an increase of 3.0% between 1996 and 1997 and a decrease of 1.6% between 1997 and 1998. Deposits grew 7.0% to US\$545.1 million at December 31, 1998 from US\$509.5 million at December 31, 1997, at which time they had increased 13.4% from US\$449.2 million at December 31, 1996. Third party assets under management decreased in 1998 from US\$307.4 million to US\$233.9 million as a result of increased volatility in capital markets caused by the international financial crisis. ASHC's past due loans as a percentage of total loans continued at 0.0% from 1996 through 1998, while reserves for possible loan losses increased from US\$746 thousand in 1997 to US\$800 thousand in 1998.

Credicorp conducts commercial banking activities in Bolivia through BCB, a full service commercial bank with, as of December 31, 1998, US\$392.9 million in deposits, US\$639.6 million in assets and US\$462.1 million in loans. In May 1999, BCB acquired from another local bank approximately US\$127 million in loans and deposits, for a US\$4.1 million fee. This acquisition increased BCB's total loans and deposits to approximately US\$627 million and US\$517 million, respectively, allowing BCB to grow from the third largest to the second largest Bolivian bank in terms of loans. As of December 31, 1998, BCB operated 49 branches located throughout Bolivia. BCB's results have been consolidated in the BCP financial statements since the date of acquisition in November 1993. Credicorp also carries out commercial banking operations in Colombia and Venezuela through Banco Tequendama, which as of December 31, 1998 had US\$200.7 million in deposits, US\$362.9 million in assets and US\$259.0 million in loans. Since January 1998, Credicorp has conducted banking operations in El Salvador through Banco Capital, which as of December 31, 1998,

had US\$38.1 million in deposits, US\$126.2 million in assets and US\$98.1 million in loans. See “—(m) Formation of Credicorp.”

Credicorp's commercial banking business is organized into Wholesale Banking (which includes the Corporate Banking operations of ASHC) and Retail Banking. Wholesale Banking is responsible for (i) corporate banking, (ii) corporate finance, (iii) middle market banking, (iv) medium term lending and lease finance and (v) international trade finance. Retail Banking is in charge of (i) small business and personal lending, (ii) mortgage lending, (iii) credit cards and (iv) consumer lending. Although attracting deposits is a function of all of the banking areas, Credicorp's deposit taking activities are concentrated primarily in the Consumer and Personal retail banking areas of BCP and the Private Banking division of ASHC.

Credicorp's loan portfolio has experienced significant increases in recent years. These increases could be accompanied by increased risk, not only due to the speed and magnitude of the increase, but also to the shift to middle market and consumer lending sectors with respect to which Credicorp lacks the experience that it has in its more traditional lending activities, particularly corporate lending. Given the changing composition of Credicorp's loan portfolio, Credicorp's historical loan loss experience may not be indicative of its future loan loss experience.

(i) Wholesale Banking

Credicorp conducts wholesale banking primarily through BCP's Wholesale Banking division, ASHC's Corporate Banking division and, as of January 1997, through Banco Tequendama and, since January 1998, Banco Capital. Given the modernization and internationalization of the Peruvian financial markets, BCP's Wholesale Banking division not only competes with local banks but also with international banks offering very competitive rates. BCP's traditional relationships continue, however, to provide a competitive advantage to the Wholesale Banking division's efforts.

BCP's Wholesale Banking division has traditionally generated the majority of BCP's loans. BCP estimates that approximately 72.2% of its loans and 93.6% of its other extensions of credit (primarily guarantees and letters of credit) at December 31, 1998 were to customers of its Wholesale Banking division. BCP has the largest capital base of any Peruvian bank, which provides it with more resources than any other Peruvian bank to address the financing needs of its corporate clients. See “—(i) Competition.” Because Peruvian companies were not able to access international sources of credit until the mid-1990's, BCP has established longstanding client relationships with virtually all of the major industrial and commercial groups in Peru. BCP's Wholesale Banking division provides its customers with short- and medium-term, local and foreign currency loans; foreign trade-related financing; and lease financing. BCP's Wholesale Banking division is divided into: (1) corporate banking, which provides services, such as electronic banking services to assist corporations with the daily management of their treasury cash flow, to companies with annual revenues in excess of US\$15 million, (2) corporate finance, which provides underwriting and financial advisory services to corporate and middle market clients, (3) middle market banking, which serves mid-sized companies and, (4) medium term lending, which provides medium-term loans to Peruvian companies and lease finance. The corporate finance and leasing (Credileasing) areas have been incorporated into BCP's Wholesale Banking division since the first half of 1996.

Although state-controlled corporations are served by BCP's Wholesale Banking division, mostly in connection with international trade finance, BCP has not extended any substantial loans directly to the Peruvian government or to regional or municipal governments.

Corporate Banking

Credicorp conducts its corporate banking activities primarily through BCP and to a lesser extent ASHC. BCP's Corporate Banking area has been the traditional strength of BCP's lending business, providing banking services to virtually all of the major industrial and commercial enterprises in Peru. BCP believes that it has an advantage in servicing the larger corporations in Peru because of its strong capital base and relative size compared to other Peruvian banks. BCP's Corporate Banking area primarily provides its customers with local and foreign currency loans and has primary responsibility for maintaining client relationships with BCP's largest banking clients. In addition, BCP's Corporate Banking area provides services such as letters of credit and standby letters of credit; domestic collections and nationwide funds transfer; payments through BCP's New York branch; and foreign exchange facilities. Loan contribution for this area represented 40% of total BCP loans. The composition of these loans was approximately 90% foreign currency-denominated (U.S. Dollars) and 10% Nuevo Sol-denominated.

ASHC's Corporate Banking division makes working capital and bridge loans. As of December 31, 1998, approximately 79.4% of ASHC's loans were to Peruvian companies, an additional 0.5% were to companies in the United States, and the remainder were to borrowers in Latin American countries other than Peru.

Corporate Finance

BCP's Corporate Finance division provides a wide range of underwriting and financial advisory services to corporate clients and middle market businesses and has a leading position in the local market. The Corporate Finance area was incorporated into BCP's Wholesale Banking division in the first quarter of 1996 in order to enhance its effectiveness as the demands of Peru's larger corporations move away from loan-based operations toward capital market-based operations.

In 1998, BCP continued to be a leader in investment banking activities. The investment banking sector was significantly affected especially in the second half of 1998 by a contraction in mutual funds in favor of new foreign currency investment alternatives. Interest rates for issuers increased due to the scarcity of funds. In 1998, capital markets transactions in Peru totaled approximately US\$540 million, of which BCP participated in 24%. In particular, BCP participated in US\$130 million of bond issues, acting as structuring agent and placement agent. These transactions had average maturities of approximately 4 years and generated fee income of US\$3.0 million.

During 1998, BCP completed a US\$100 million securitization transaction, involving future receivables of Visa credit card collections, under favorable long term and interest rate conditions.

In April 1998, BCP's Corporate Finance division, in association with Merrill Lynch, was selected by the Peruvian government to serve as coordinator for the privatization of shares held in several electric utility companies – including Edegel, Egenor, Etevensa, Piura and Cahua – beating out other consortia composed of the principal local banks in association with international investment banks.

Middle Market Banking

The Middle Market Banking division generally serves the same industries and offers the same products as the Wholesale Banking division; however, its focus is on providing its customers with

working capital loans primarily secured by accounts receivable. Credicorp conducts middle market lending primarily through BCP and Banco Tequendama, and, to a much lesser extent, through ASHC and Capital. The Middle Market Banking division of BCP, after growing significantly in earlier years, contracted during 1997 but recovered to previous levels during 1998, lending a total of US\$1.4 billion. Stringent credit quality requirements continued to be applied during 1998 due to adverse economic conditions related to the economic impact of “El Niño” and adverse capital flows brought by the international financial crisis. However, Credicorp expects this sector to grow and increase in relative importance as the Peruvian economy grows.

Despite decreased loan quality in the sector, Credicorp sees significant opportunities in lending to middle market businesses, particularly in Peru’s agriculture, fishing and construction industries, where special emphasis has been placed and specific task units have been created to attend to the needs of these economic groups. Financial margins in the middle market continue to be attractive. Because of their size, middle market companies in Peru generally do not have access to the local or international capital markets or to credit from foreign banks. In addition, Credicorp believes that middle market companies have benefited significantly from the overall economic improvements in Peru over the past few years. Loan quality problems have been addressed through procedures and organizational changes that have focused on improving the loan approval and credit-risk assessment processes. See “—(iii) Credit Policy and Review.”

Medium-Term Lending and Lease Finance

Credicorp also conducts, primarily through BCP’s Medium Term Lending division, medium-term lending and lease financing operations. As of December 31, 1998, BCP had outstanding S/1,891.7 million (US\$604.4 million) in medium-term loans, which includes S/815.5 million (US\$260.5 million) in lease financing operations, representing increases of 31.7% and 18.1%, respectively, as compared to December 31, 1997.

As of December 31, 1998, the balance of medium-term loans outstanding was US\$343.8 million, which included resources available from credit lines of the Inter-American Development Bank made available to the banking system via the Peruvian development financing company Corporación Financiera de Desarrollo (“COFIDE”) and from other multilateral organizations. In addition to its regular sources of funds, BCP is an intermediary in several medium-term credit lines for project financings in certain sectors for COFIDE and such international financial institutions as Corporación Andina de Fomento (Andean Development Corporation or “CAF”) and the International Finance Corporation (“IFC”).

BCP’s medium-term financing products, which include structured loans, project financing and syndicated transactions, are designed to accommodate specific clients’ needs. Through these products BCP has been an active lender and financial advisor to Peru’s mining, technology and energy sectors, offering more than US\$180 million in loans with diverse financial structures, objectives and terms. The bank acted as co-structuring agent, together with other international banks, in a US\$300 million syndicated loan for a local telecommunications company. BCP participated in a total of US\$290 million of syndicated financings for mining companies.

Credicorp performs its leasing operations through a subsidiary of BCP, Credito Leasing (“Credileasing”). At December 31, 1998, Credicorp’s leasing operations totaled S/815.5 million (US\$260.5 million), 74% of which were recorded on the books of Credileasing. BCP’s lease finance business is currently the second largest in Peru, with an estimated market share of 13.6% at December

31, 1998. The principal means of financing for Credileasing is through the issuance of specific leasing bonds, of which a total of S/308.8 million (US\$98.7 million) had been issued as of December 31, 1998. Management estimates that Credileasing's market share among specialized leasing companies was approximately 19% in 1998. Leasing customers are primarily companies engaged in manufacturing, commerce and fishing concerns that lease such items as machinery, equipment and vehicles. Credicorp's leasing business has increased significantly since the formation of Credileasing.

International Trade Finance

Credicorp's International Trade Finance operations are focused primarily on providing short-term credits for international trade, funded with internal resources or with credit lines from foreign banks and institutions. Medium-term lines of credit funded by international commercial banks and other countries' governmental institutions are also provided. In addition, the International Trade Finance division earns fees by providing customers with letters of credit or international collections, and providing foreign exchange services to clients. The International Trade Finance division is also in charge of promoting international trade activities, by structuring Peruvian overseas commercial missions and introducing Peruvian businesses to potential foreign clients and vice versa.

In 1998, Peruvian exports decreased 16.5% from US\$6.8 billion to US\$5.6 billion, principally due to difficulties arising from the "El Niño" weather phenomenon and from lower commodity prices. In turn, BCP's export facilities volume decreased 10.2% to US\$1,299.9 million, amounting to 23.1% of total Peruvian exports (21.4% in 1997). Total Peruvian imports were US\$8.1 billion in 1998, decreasing 3.4% compared to 1997. BCP's import facilities volume in 1998 was US\$1,335.7 million, representing a 9.3% increase from 1997 and 16.5% of total imports (14.6% in 1997).

BCP has a large network of foreign correspondent banks. BCP's New York branch is also active in providing trade finance services. ASHC's trade finance activities are conducted by its Corporate Banking division. ASHC has concentrated its extensions of credit on short-term trade transactions with Latin American countries other than Peru.

(ii) Retail Banking

Credicorp's retail banking activities are conducted by BCP and, to a much lesser extent, by BCB in Bolivia, and, as of January 1997, by Banco Tequendama in Colombia and Venezuela. During the last three years, lending by BCP's retail units has grown significantly, particularly with respect to loans to small businesses and home mortgage loans. Retail Banking as a group accounted for approximately 28% of BCP's total loans at the end of 1998 versus 29% at the end of 1997. With the segmentation of its retail client base, BCP is able to focus on the cross-selling of products and improving per-client profitability. Credicorp expects the Retail Banking businesses to be one of the principal growth areas for BCP's lending activities.

At BCP, Retail Banking operations are divided into two divisions, Service Banking and Personal Banking, the latter of which is further subdivided into Consumer Banking, Business Banking, Institutional Banking and Private Banking. The Service Banking division carries out personal loan authorization and collection, and has invested substantially during the past few years to improve delivery channels in order to provide better quality and more efficient service. Consumer Banking is in charge of servicing BCP's traditional retail client base, and is also in charge of mortgage lending and credit cards. Business Banking manages small business banking, which targets companies with annual revenue of less than US\$750,000, and personal banking, which targets middle and upper income

individuals. Small business banking provides primarily inventory and working capital loans, while personal banking consists primarily of cash credit through overdrafts. Institutional Banking focuses principally on serving non-profit organizations, state-owned companies and other major institutions that may be assigned to be served by this unit. Private Banking principally serves high-income individuals and specializes in offering personalized service.

Small Business and Personal Lending

Small business lending is the largest segment within BCP's Personal Banking operations and presents significant opportunities for growth if the Peruvian economy continues to improve, although during 1998 it encountered increased loan quality problems. Demand for small business products and services decreased due to the poor development of Peruvian economic sectors mostly related to domestic consumer demand, which affected this segment's loan quality and loan growth. After several years of continuous growth, it decreased 8.0% in 1998 to US\$626.9 million. The same is true for personal lending, including consumer loans, which represent a very attractive segment for expansion given the growing demand, for consumer goods and the competitive interest rates and financing terms offered to this segment of the banking market. Products and services include overdrafts, promissory notes, discounted drafts, stand-by letters of credit, commercial letters of credit, and savings and term deposits. BCP also offers consumer loans such as car loans and, to a lesser extent, travel loans and home appliance loans.

Mortgage Lending

Credicorp expects BCP's mortgage lending business to continue to grow given the low levels of penetration in the financial market, the increasing demand for housing and the current economic outlook for controlled inflation and sustained GDP growth in Peru. BCP had S/986.6 million (US\$315.2 million) of outstanding mortgage loans at December 31, 1998 compared to S/717.1 million (US\$263.6 million) at the end of 1997, an increase of 19.6%.

Mortgage financing is available only to customers with minimum monthly income in excess of US\$900. BCP will finance up to 75% of the appraised value of a property where monthly mortgage payments do not exceed 30% of the stable net income. The maximum maturity of the mortgage loans BCP offers is 25 years. Within the mortgage lending business, BCP offers variable and fixed interest rates on home mortgage loans denominated in both U.S. Dollars and Nuevos Soles; however, BCP's mortgage portfolio is almost exclusively variable rate and U.S. Dollar-denominated.

Credit Cards

Credit cards were not widely used as a method of payment in Peru during the hyperinflationary years prior to 1992. Since that time the number of outstanding credit cards has been growing rapidly, in percentage terms, as inflation has fallen, and BCP expects strong demand for credit cards to continue.

The market for credit cards in Peru has grown significantly as improving economic conditions have led to increased consumer spending, with credit cards increasingly being seen as a convenient way to make payments. Although credit cards existed previously in the Peruvian banking system they were infrequently used by customers, since merchants tended to charge high usage fees to compensate for the effects of inflation. In addition to interest income, BCP derives fee income from customer application

and maintenance fees, retailer transaction fees, merchant processing fees and finance and penalty charges on credit cards.

The number of active credit cards issued by BCP has increased from 28,840 as of December 31, 1990 to 124,947 in 1998. In 1998 Solución purchased a credit card loan portfolio which included approximately 23,000 cards, allowing them to commence this line of business. BCB issues credit cards in Bolivia with approximately 16,000 outstanding.

BCP estimates that its credit cards account for almost 20% of the credit cards issued in Peru as of December 31, 1998, with the remainder being issued by other banks, companies such as Diners Club and, increasingly, department stores. The estimated total number of credit cards issued in Peru as of December 31, 1998 was approximately 700,000, decreasing from approximately 750,000 in 1997, principally due to poor economic conditions, which led to decreased consumer demand, and increased emphasis by lenders on the cancellation of delinquent and inactive cards.

All of BCP's credit cards are issued through Visa. In 1997, VISANET was established with the participation of major local banks and Visa International, where BCP is the largest shareholder, holding 36% of the shares, to process credit and debit card transactions and to widen their acceptance. In 1997 the number of electronic payment terminals ("POS") was approximately 1,500, increasing to 5,000 in 1998.

BCP's total credit card billings as of December 31, 1998 were S/994.9 million (US\$317.9 million), and the credit balance as of December 31, 1998 was S/364.1 million (US\$116.3 million), representing 2.6% of total loans. At December 31, 1998, BCP's credit card portfolio had balances past due more than four months of approximately 3.6%. BCP is taking steps to improve its card approval and collection process. These measures include issuing cards only to persons with stable net monthly incomes above US\$400 and developing better methods for verifying applicants' information and credit history. Additionally, BCP has developed a mathematical scoring system to better assess the risk-reward variables associated with consumer lending. During 1998, the automated call center was expanded both in terms of its capability to handle a higher volume and in its capacity to originate both collection transactions and sales calls. See "— (iii) Credit Policy and Review."

Consumer Finance

Credicorp operates Solución Financiera de Credito ("Solución"), a mass consumer finance entity in Peru formed by BCP with Banco de Crédito e Inversiones ("BCI") of Chile in 1996. Financiera de Crédito del Perú, formerly a 99.99% owned subsidiary of BCP, was used as a base to set up Solución, of which BCP holds a 55% share and BCI holds a 45% share. Solución, with total loans of US\$76.6 million at December 31, 1998, offers lending products through direct sales calls and through its own branches, as well as through BCP's branch network. In June and October 1998, Solución purchased US\$22.0 million and US\$51.0 million of consumer loan portfolios from the Peruvian banks Serbanco and Solventa, respectively.

(iii) Credit Policy and Review

Credicorp applies uniform credit policies and approval and review procedures, which are based on conservative criteria adopted by BCP, to all of its subsidiaries. Credicorp's General Manager is in charge of setting the general credit policies for the different business areas of Credicorp. These

policies are set within the guidelines established by the Banking Law (as defined below) and SBS regulations, and the guidelines set forth by Credicorp's Board of Directors.

The credit approval process is based primarily on an evaluation of the borrower's repayment capacity and on commercial and banking references. A corporate borrower's repayment capacity is determined by analyzing the historical and projected financial condition of the company and of the industry in which it operates. An analysis of the company's current management, banking references and past experiences in similar transactions, and the collateral to be provided, are other important factors in the credit approval process. For BCP's individual borrowers, the information that is presented by the prospective borrower is evaluated by a credit officer and the application is passed through a scoring program for approval by a centralized credit unit.

During 1997, BCP initiated a series of changes in the credit approval, risk control and recovery procedures of the middle market and small business units. Credit risk analysis responsibilities were transferred from the business units to a central credit risk division. Final implementation of these changes took place through mid-1998.

Success in the small business and personal lending areas depends largely on the ability to obtain reliable credit information about prospective borrowers. In this regard, BCP, together with several partners, formed a credit research company called Infocorp in November 1995. In addition, the SBS has expanded its credit exposure database service to cover all businesses or individuals with any amount borrowed from a Peruvian financial institution. Formerly the coverage began when the credit risk exposure exceeded S/13,558, although information on borrowings below such amount is limited to individuals with amounts owed to more than one institution.

Credicorp has a strictly enforced policy with respect to the lending authority of its loan officers and has in place procedures to ensure that these limits have been adhered to before a loan is disbursed. Under BCP's new credit approval process, the lending authority for middle market and small business loans has been centralized into a specialized credit risk analysis unit, whose officers have been granted lending limits, thus allowing middle market and small business loan officers to concentrate on their client relations. To ensure that loan officers and credit analysis officers are complying with their lending authority, the credit department and BCP's internal auditors consistently examine credit approvals.

The following table briefly summarizes BCP's policy on lending limits for loan officers and credit risk analysis officers. Requests for credit facilities in excess of the limits set forth below are reviewed by Credicorp's General Manager, Executive Committee or, if the amount of the proposed facility is sufficiently large, Board of Directors.

	Personal and Small	
	Wholesale	Business
	<i>(U.S. Dollars)</i>	
Loans supported by liquid collateral or not exceeding two years(1)		
Loan Officer and Credit Analysis Officer	US\$ 210,000	US\$ 40,000
Chief Lending and Chief Credit Analysis Officer	600,000	200,000
Area Manager	1,950,000	400,000
Senior Credit Officer	4,500,000	1,500,000

Loans supported by other collateral or exceeding two years(2)

Loan Officer and Credit Analysis Officer	70,000	40,000
Chief Lending and Chief Credit Analysis Officer	200,000	100,000
Area Manager	650,000	200,000
Senior Credit Officer	1,500,000	800,000

- (1) Liquid collateral includes cash deposits, stand-by letters of credit, securities or other liquid assets with market price, and accepted drafts.
- (2) Other collateral includes securities with no market value, non-accepted drafts, real estate, mortgages, security interests on equipment or crops and assets involved in leasing operations.

Credicorp believes that an important factor for maintaining the quality of its loan portfolio is the selection and training of its loan officers. Credicorp requires loan officers to have degrees in economics, accounting or business administration from competitive local or foreign universities. In addition, the training program consists of a six-month rotation through all of the business-related areas of Credicorp and the credit risk analysis area. After the training period is over, trainees are assigned as assistants to loan officers for a period of at least one year before they can be promoted to loan officers. Loan officers also receive additional training throughout their careers at Credicorp. Furthermore, officers are generally required to have had previous positions as loan officers.

In general, Credicorp is a secured lender. As of December 31, 1998, approximately 73% and 89% of the loan portfolio and the contingent credits, respectively, were secured by collateral. Liquid collateral is a small portion of the total collateral. In general, if Credicorp requires collateral for the extension of credit, it requires collateral valued at between 10% and 50% above the facilities granted. The appraisal of illiquid collateral, in particular real estate assets, machinery and equipment, is performed by independent experts when required for specific reasons. BCP's policy generally is to require that the appraised value of illiquid collateral exceed the loan amount by at least 20%. In cases where a borrower encounters difficulties, Credicorp seeks to obtain additional collateral.

The existence of collateral does not affect the loan classification process according to regulations in effect as of December 1998. However, pursuant to Law 26702, secured loans, or the portion thereof covered by collateral, classified in Class "B," "C," or "D" risk categories have a lower loan loss provision requirement. If a borrower is classified as substandard or below, then Credicorp's entire credit exposure to that borrower is so classified. See "(n) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio."

Credicorp conducts unannounced internal audits as well as an annual audit by external auditors, consistent with bank regulatory practice in the respective jurisdictions in which it operates.

ASHC's policy is to provide funding to customers on the basis of approved lines of credit and not on a case-by-case basis. ASHC's Credit Committee, which is comprised of ASHC's President, ASHC's five Senior Vice Presidents and ASHC's two Corporate Banking Vice Presidents, meets weekly to discuss the loan portfolio and to approve the extension or renewal of credit facilities for ASHC's Miami agency and to review facilities approved by the committee charged with overseeing extensions of credit by ASHC's Panama branch. ASHC's loan officers operate within established credit limits ranging from US\$25,000 to US\$200,000. Regardless of whether an approved facility exists for a client, any transaction in excess of US\$200,000 requires the approval of senior management. In addition, all credit extensions are monitored by ASHC's Corporate Banking division and reviewed in their entirety each year by ASHC's Credit Committee.

(iv) Deposits

Credicorp's deposit taking operations are led by BCP's Consumer and Personal Banking divisions and ASHC's Private Banking division. See "— (n) Selected Statistical Information — Deposits."

The main objective of BCP's retail banking operations has historically been to develop a diversified and stable deposit base in order to provide a low cost source of funding. This deposit base has traditionally been one of BCP's important strengths. At December 31, 1998, BCP's deposits amounted to S/15.5 billion (US\$5.0 billion), remaining similar to the December 1997 balance. BCP has historically relied on the more traditional, low-cost deposit sources such as demand deposits, savings and Severance Indemnity Deposits, or *Compensación por Tiempo de Servicio* ("CTS" deposits), which are deposits that employers must make by law on behalf of their employees as severance contributions. At December 31, 1998, these core deposits represented 61.5% of BCP's total deposits. At the same time, term deposits and foreign currency certificates of deposit, especially U.S. Dollars, significantly increased due to market conditions that forced BCP to compete more aggressively for these types of deposits. BCP's extensive network of offices facilitates access to this type of stable and low cost source of funding. Additionally, BCP's corporate clients are an important source of funding for BCP. As of December 31, 1998, BCP's Wholesale Banking division accounted for approximately 17.1% of total deposits, of which 41% were demand deposits, 51% time deposits, and 8% savings. Of all deposits from BCP's wholesale banking division, most (80.4%) were foreign currency-denominated (almost entirely U.S. Dollars) and the balance (19.6%) were Nuevo Sol-denominated.

ASHC's Private Banking division's clients have traditionally provided a stable funding source for ASHC, as many are long-time clients who maintain their deposits with ASHC. As of December 31, 1998, ASHC had approximately 5,500 customers. Currently, 95% of ASHC's private banking clients are Peruvian. In the future, the Private Banking division intends to diversify its customer base geographically. During 1998, ASHC's core deposit base continued to grow, increasing US\$35.6 million to US\$545.1 million as of December 31, 1998.

All Credicorp subsidiaries have programs in place to comply with the "know your customer" regulations in place in the countries in which they operate. Peru has long-standing laws criminalizing money laundering activities, and such laws were further strengthened in 1996 with the adoption of Law 26702, which incorporated the guidelines of the Organization of American States ("OAS") directly into Peruvian law. Under Law 26702, the SBS has the authority to request detailed reports with respect to the movement of funds and the identity of depositors. According to recently enacted regulations, financial institutions must adopt internal mechanisms, special personnel training programs and procedures to detect and report unusual or suspicious transactions as defined therein. In addition to the provisions under Peruvian law, BCP established an internal "know your customer" policy in 1995. As an additional precaution, ASHC will open accounts only for individuals or entities that are recommended by senior officers of ASHC or BCP. See "—(iii) Credit Policy and Review."

(c) Capital Markets

Credicorp's capital markets businesses include: (i) trading and brokerage services, (ii) treasury, foreign exchange and proprietary trading, (iii) asset management, (iv) trust, custody and securitization services, and (v) investments by PPS. BCP has the largest capital markets/brokerage distribution system in Peru, offering such services through 17 of its branches, all of which are interconnected with its brokerage subsidiary and have access to current market information. Capital

market and brokerage services are relatively new in Peru; however, management estimates that, with the expected growth and restructuring of the Peruvian business sector, the market for these services will increase significantly, even though it was negatively affected by the international financial crisis of 1998. The majority of Credicorp's capital markets and brokerage activities are conducted through BCP (where in 1996 all such services were brought under one division) and, to a lesser extent, through ASHC.

(i) Trading and Brokerage Services

The majority of Credicorp's trading and brokerage activities are conducted primarily through BCP and, to a lesser extent, through ASHC.

BCP's subsidiary, Credibolsa Sociedad Agente de Bolsa S.A. ("Credibolsa"), is the leading brokerage house on the Lima Stock Exchange. During 1998, Credibolsa had a total trading volume of US\$2.6 billion, decreasing from US\$3.3 billion in 1997, and represented 17.6% of the total trading volume on the Lima Stock Exchange. Credibolsa's trading volume was generated by domestic customers, both retail and institutional, and by foreign institutional clients as well as by Credicorp's proprietary trading. In an environment of low profitability and high competition, over the past year, Credibolsa has been able to increase its profitability by expanding its sources of revenues. In addition to providing basic brokerage services, Credibolsa serves as a local market advisor for specialized stock market transactions and is one of the principal agents in the equity offerings of recently privatized companies in Peru. During 1998, it managed the exchange offer of common "A" shares for common "B" shares of Compañía de Minas Buena Ventura, a transaction which involved 32 million shares covering 94.9% of outstanding shares. See "(b) Commercial Banking Wholesale Banking Corporate Finance."

(ii) Treasury, Foreign Exchange and Proprietary Trading

BCP's treasury and foreign exchange groups are active participants in money market and foreign exchange trading. These groups manage BCP's foreign exchange positions and reserves and are also involved in analyzing liquidity and other asset/liability matters. During 1998, the trading desk played an important role in short-term money markets in Nuevos Soles and in foreign currencies. It was active in the auctions of certificates of deposit by Peru's *Banco Central de Reserva* ("Central Bank") and in financings through certificates of deposit, inter-bank transactions and guaranteed negotiable notes, among other instruments. Although the trading desk experienced strong competition and reduced margins, it was able to increase its transaction volume to more than US\$15 billion in 1998 from US\$11 billion in 1997. In addition, in 1998 the trading desk expanded its base of clients who utilize its foreign exchange trading services, reaching a market share of 28%. In 1998 it had a volume of US\$1.2 billion of foreign exchange forward transactions.

BCP's proprietary trading consists of trading and short term investments in securities, primarily Peruvian instruments. These short-term investments are primarily made to facilitate its corporate finance efforts.

ASHC trades for its own account primarily by making medium-term investments in fixed income, equity securities and sovereign debt from Latin American emerging markets, principally Peru. The portfolio includes non-investment grade debt securities of U.S. public companies and, to a much lesser extent, private U.S. debt and equity issues. Such securities are subject to substantial volatility and there can be no assurance as to their future performance. At December 31, 1998, ASHC had

approximately US\$118.8 million in these types of securities. ASHC generally utilizes its own funds for these activities rather than borrowings or deposits. ASHC also manages a US\$115.9 million portfolio of investment securities, of which ASHC's holdings in Credicorp are its largest investment, with a market value of approximately US\$75.8 million at December 31, 1998. ASHC's investment portfolio, as well as future purchases, sales, overall investment strategy and the general profile of the trading portfolio are reviewed weekly by an investment committee chaired by ASHC's President.

(iii) Asset Management

Credicorp's asset management business is carried out by BCP and ASHC.

In June 1994, BCP created Credifondo S.A., Sociedad Administradora de Fondos Mutuos de Inversión en Valores ("Credifondo") to establish, advise and operate mutual funds in Peru. In 1998 it continued to be the largest mutual fund manager with 36% of the market even though the volume declined due to increased volatility in capital markets and lower valuations, partly because of deficiencies in the regulatory framework.

As of December 31, 1998, Credifondo managed six separate funds: an equity fund, a U.S. Dollar-denominated bond fund, a Nuevo Sol-denominated bond fund, two short term funds, one denominated in U.S. Dollars and the other in Nuevos Soles, and a closed-end U.S. Dollar-denominated real estate investment fund. As of December 31, 1998, the equity fund had 95 participants and assets of S/1.6 million (US\$0.5 million); the U.S. Dollar-denominated bond fund had 6,120 participants and assets of S/370.4 million (US\$117.3 million) (down from US\$219.5 million at December 31, 1997); the Nuevo Sol-denominated bond fund had 606 participants and assets of S/14.1 million (US\$4.5 million) (down from US\$13.4 million at December 31, 1997); the Nuevo Sol-denominated short term fund had 8 participants and assets of S/2.7 million (US\$0.9 million); the U.S. Dollar-denominated short term fund had 29 participants and assets of S/7.1 million (US\$4.3 million); and the real estate fund had 15 participants and assets of S/31.4 million (US\$10.0 million). At December 31, 1998, the total amount of funds managed by Credifondo was equal to US\$133.9 million, down from US\$233.5 million at December 31, 1997. The dramatic changes in the assets of some of the funds from 1997 to 1998 were primarily a result of market conditions in the region, as well as increased competition.

ASHC's Asset Management group, created in 1989, conducts ASHC's management of third-party funds which, considering the aggregate of third-party assets under management, had total assets under management of US\$233.9 million as of December 31, 1998 (a portion of which were BCP's funds), compared to US\$307.4 million as of December 31, 1997, decreasing principally due to low returns and high volatility in international capital markets. Investment decisions for these funds are made by senior officers within ASHC and BCP, in accordance with guidelines of the Investment Committee.

(iv) Trust, Custody and Securitization Services

BCP's Trust and Custody unit holds US\$2.7 billion in securities for domestic and foreign clients. Custody services provided by BCP include the physical keeping of securities and the payment of dividends and interest. In addition, BCP acts as paying agent for securities for which it does not keep custody. BCP is one of the few banks in Peru that qualifies to serve as a foreign custodian for U.S. mutual funds. Trust services include escrow, administration and representation services, supervision of transactions done for its clients and transfer settlement and payment services for local

securities issues. In 1997, BCP formed Creditítulos, to provide asset securitization services, and during 1998 it structured the first securitization of real estate assets in Peru.

(v) Investments by PPS

PPS's investments are made primarily to meet its solvency equity ratio and to provide reserves for claims. PPS historically has invested only in Peruvian securities and assets, although non-Peruvian investments may be made with prior SBS approval provided that the particular class of investments is permitted by regulations of Peru's Central Bank. PPS's investment strategies and portfolio generally are reviewed and approved by its Board of Directors monthly. Senior management does have investment authority, however, with respect to temporary investments using cash surpluses. For a discussion of PPS's investment activities, see “—(d) Insurance—(iii) Investment Portfolio.”

(d) Insurance

Credicorp conducts its insurance operations exclusively through PPS, which provides a broad range of insurance products. In 1998, the six most significant lines together constituted 77.0% of the total premiums written by PPS, and consisted of commercial property damage (including fire, earthquake and related coverage but not personal injury, tort or other liability risk), as well as automobile, health, life, pension fund underwriting and cargo. PPS is the leading Peruvian insurance company, with a market share of 30.0% based on gross insurance premiums and 32.8% based on net premiums written in 1998.

Consolidated net income for 1998 was S/48.3 million (US\$15.4 million), similar to the 1997 result. Net profits remained almost unchanged in spite of an increase in premiums written, which were partially offset by increased net claims and operating expense. Operating expenses including provisions during 1998 were 21.7% of net premiums written, increasing from 18.6% in 1997, and from 17.8% in 1996.

Net underwriting results increased 12.7% to S/83.5 million in 1998. The ratio of net underwriting results (net underwriting results to net premiums) improved from 16.4% during 1997 to 16.6% in 1998, mainly because of an increased retention index, partially offset by higher net claims. Total premiums increased 10.9% to S/503.1 million during 1998 from S/453.8 million in 1997. Premiums written, net of reinsured premiums and of technical reserves, were S/392.1 million in 1998, increasing 14.1% over 1997.

PPS's business is highly concentrated: its client base consists of 96,000 individuals and 33,500 companies, with the three largest and twenty largest customers representing 6.4% and 20.5%, respectively, and the ten largest brokers accounting for approximately 40.4% of total premiums. This concentration is attributable primarily to the relatively low premium levels of its personal insurance products compared to that of the commercial property line (where PPS traditionally has ceded to reinsurers substantially all premiums written). Accordingly, although PPS cedes to reinsurers a substantial portion of its commercial property-casualty premiums, significant losses by one or more major customers could result in significant claims for PPS.

El Pacífico Vida, PPS's life insurance subsidiary which is 38% owned by a subsidiary of American International Group (“AIG”), had total premiums of S/107.9 million in 1998, 51.3% over premiums in 1997, which in turn increased 47.4% over 1996. PPS expects to increase its life insurance sales in Peru in the next few years and believes that AIG's participation in El Pacífico Vida will provide

the company with an advantage in competing for market share, which stood at 30% of the segment in 1998. The individual life insurance and the life annuities markets are expected to have the highest growth rates. Credicorp, through BCP's branch network, during 1998 sold 15,000 term life insurance policies covering accident and natural causes.

(i) Underwriting, Clients and Reinsurance

Underwriting decisions for substantially all of PPS's insurance risks are made through its central underwriting office, although certain smaller local risks are underwritten at PPS's two regional offices. PPS's own underwriting staff inspects all larger commercial properties prior to the underwriting of commercial property or other risks related thereto with agents and brokers inspecting properties for smaller risks.

PPS utilizes reinsurance to limit its maximum aggregate losses and minimize exposure on large risks. Reinsurance is placed with reinsurance companies based on evaluation of the financial security of the reinsurer, terms of coverage and price. PPS's principal reinsurers in 1998 were Munchener Ruck, Lloyd's of London, New Hampshire Co., Hannover Ruck, Kolnische Ruck and Gerling-Konsern Ruck. Premiums ceded to reinsurers represented 29.0%, 20.3% and 31.0% of premiums written in 1998, 1997 and 1996, respectively. PPS acts as a reinsurer on a very limited basis, providing its excess reinsurance capacity to other Peruvian insurers that are unable to satisfy their reinsurance requirements. As of December 31, 1998, premiums for reinsurance written by PPS totaled S/2.7 million (US\$0.9 million).

Although PPS historically has obtained reinsurance for a substantial portion of its earthquake-related risks and maintains catastrophic reserves, there can be no assurance that a major catastrophe would not have a material adverse impact on its results of operations or financial condition.

(ii) Claims and Reserves

Net claims paid as a percent of net premiums written (*i.e.* the net loss ratio) increased to 69.4% in 1998 from 67.1% in 1997 and 69.2% in 1996. The net loss ratio from automobile risks, which represented 16.9% of PPS's portfolio in 1998, decreased to 59.2% in 1998 from 59.8% in 1997, which partially offset increases in other insurance lines, principally property damage and marine hull which increased from 42.6% and 108.2% in 1997 to 133.1% and 128.9% in 1998, respectively, principally related to casualties derived from the "El Niño" weather phenomenon.

The net loss ratio from medical insurance continued to be high at 72.3% in 1998, increasing from 71.6% in 1997. The net loss ratio from private pension fund insurance decreased from 104.0% in 1997 to 100.1% in 1998. The cargo and transport insurance risk also decreased, with net loss ratios of 54.8% in 1997 and 46.0% in 1998.

PPS is required by law to establish claims reserves in respect of pending claims in its property-casualty business; reserves for future catastrophic events affecting certain of its lines of business; reserves for future benefit obligations under its in-force life and accident insurance policies; and unearned premium reserves in respect of that portion of premiums written that is allocable to the unexpired portion of the related policy periods (collectively, "Technical Reserves").

PPS establishes claims reserves with respect to claims that have been reported and for which loss amounts have been estimated. Pursuant to SBS regulations, such reserves are reflected as liabilities

in PPS's financial statements, net of any related reinsurance recoverables. While Peruvian law requires the establishment of reserves for incurred but not reported ("IBNR") claims, SBS regulations implementing such law have not been adopted and accordingly PPS, like other Peruvian insurers, generally does not set aside IBNR reserves. Pursuant to internal policies, however, PPS does set aside approximately 35% of its monthly health insurance premiums as IBNR reserves. Peruvian law does not require reserves for estimated claims expenses.

Pursuant to SBS regulations, PPS establishes pre-event reserves for catastrophic risks with respect to earthquake coverages in the commercial property, business interruption, and engineering lines. Based upon outstanding risks as of December 31, 1998, such reserves must reach S/17.5 million (US\$5.6 million) by the year 1999. During 1997 PPS set aside S/14.1 million (US\$4.5 million) and, in 1998, S/17.5 million (US\$5.6 million) reaching the 1999 required amount of catastrophic reserves. PPS records as liabilities in its financial statements actuarially determined reserves calculated to meet its obligations under its life and accident policies and its pension fund underwriting business, using mortality tables, morbidity assumptions, interest rates and methods of calculation prescribed by law. PPS also establishes unearned premium reserves to cover the risks of policy lapse or termination prior to the end of the policy period in accordance with percentages established by the SBS.

There can be no assurance that ultimate claims will not exceed PPS's reserves.

(iii) Investment Portfolio

PPS's net investment income and realized capital gains on invested assets together accounted for 13.9% and 9.9% of PPS's revenues for the years ending December 31, 1998 and 1997, respectively. As of December 31, 1998, the book value of PPS's investment portfolio (which includes PPS's investments in Cervecería Backus & Johnston ("Backus") and Credicorp discussed below) was S/399.8 million (US\$127.7 million), with S/371.7 million (US\$118.8 million) invested in securities, primarily common stocks, and S/28.1 million (US\$9.0 million) invested in real estate and other invested assets. As of such date, the market value of the portfolio was S/508.2 million (US\$162.4 million), of which S/350.9 million (US\$112.1 million) related to PPS's common stock portfolio.

PPS's two single largest equity investments, which as of December 31, 1998 were a S/204.0 million (US\$65.2 million) investment in Backus and a S/68.9 million (US\$22.0 million) investment in Credicorp, each expressed in market values, together constituted over 53.7% of the market value of its investment portfolio. See "(n) Selected Statistical Information—Loan Portfolio—Concentration of Loan Portfolio and Lending Limits." As of December 31, 1998, PPS held real estate investments with a book value of S/28.1 million (US\$9.0 million), net of S/31.9 million in depreciation charges and S/7.3 million of provisions for lower market value assessment.

PPS's investment portfolio is highly concentrated in equity securities. This lack of diversification, combined with the limited investments in fixed income securities, make both the value and the income of the investment portfolio vulnerable to extreme volatility. Because the investments in Backus and Credicorp are large, there can be no assurance that PPS could readily dispose of significant portions of its securities portfolio at market values. Accordingly, there are risks associated with the potential illiquidity of PPS's securities holdings in the event that significant claims give rise to the need to liquidate rapidly a portion of such holdings.

Part of PPS's strategy is to maintain an adequate foreign exchange position in U.S. Dollars, since a significant portion of its premiums are denominated, and much of its operations are conducted,

in U.S. Dollars. In 1998, 95.5% of the gross premiums received by PPS were denominated in U.S. Dollars. As of December 31, 1998, PPS had US\$18.3 million in short and medium-term U.S. Dollar-denominated deposits and U.S. Dollar-denominated corporate bonds of Peruvian companies.

(e) Pension Fund Management

Credicorp participates through its indirect 39.99% interest in AFP Unión in the Peruvian private pension fund administration system, the *Sistema de Administración de Fondo de Pensiones* (the “AFP System”), instituted by the Peruvian government in June 1993, which Credicorp views as a business area with significant growth potential. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations—(a) Historical Discussion and Analysis—Results of Operations for the Three Years Ended December 31, 1998—Operating Expenses”; “—(m) Formation of Credicorp”; and “Item 13. Interest of Management in Certain Transactions.” AFP Unión, whose senior management previously worked at BCP, is currently the third largest, in terms of managed funds, of the five pension fund administrators (“AFPs”) operating in Peru. American International Group (“AIG”), through its subsidiaries, also holds a 40% interest in AFP Unión while Backus holds the remaining 19.99% interest. As of December 31, 1998, the paid-in capital of AFP Unión was S/39.2 million (US\$12.5 million). AFP Unión, like most of the other AFPs currently operating in Peru, experienced losses from the beginning of operations in June 1993 through fiscal year 1996. AFP Unión had net income of S/9.1 million (US\$3.3 million) in 1997 and of S/8.7 million (US\$ 2.8 million) in 1998, although as of December 31, 1998 it had cumulative retained losses of S/14.0 million (US\$4.5 million).

The Peruvian private pension fund system is a voluntary system, with employees having the choice to participate either in the private system or in the public social security system. As of December 31, 1998, there were approximately 2.0 million workers in the private system, an increase of approximately 14.1% from December 31, 1997. The aggregate funds administered by AFPs of approximately US\$1.5 billion at year-end 1997, grew 13% to US\$1.7 billion at year-end 1998, and are expected to continue to grow significantly.

(f) Distribution Network

(i) Commercial Banking

BCP’s branch network consisted, as of December 31, 1998, of 106 branches in Greater Lima and 104 branches in the provinces of Peru, the largest number of branches, with the most extensive country coverage, of any privately held bank in Peru. Credicorp believes that BCP’s branch network has been largely responsible for BCP’s success in attracting stable, relatively low-cost deposits. BCP is also installing more ATMs in order to provide clients with more services and reduce congestion in the branches. BCP also operates a branch in New York and in Nassau, Bahamas, and has representative offices in Bogota, Colombia, and Santiago, Chile. BCP also owns a banking subsidiary in the Bahamas. In addition, BCP has made an application to the Federal Reserve Bank of Atlanta regarding the opening of an agency in Miami.

ASHC has banking offices in Panama and Miami, and a representative office in Lima. Tequendama operates 20 branches in Colombia and 2 branches in Venezuela. BCB operates 49 offices located throughout Bolivia, of which 14 are principally dedicated to transactions made on behalf of the Central Bank of Bolivia. Solución has 6 offices in Lima and 15 in other cities of Peru.

(ii) Capital Markets

Credicorp offers capital market products and services through BCP and ASHC. BCP offers clients a wide range of such products and services, such as brokerage, mutual fund and custody services, through its branch network in Lima and, on a more limited basis, throughout the rest of Peru. In addition, Credicorp also distributes such products through ASHC.

(iii) Insurance

PPS, like other major Peruvian insurance companies, sells its products both through independent brokers and agents, as well as directly, with 9.4% of premiums written for the year ended December 31, 1998 attributable to insurance products sold directly by PPS. Directly written policies tend to be for large commercial clients.

A significant element of Credicorp's current market strategy is to expand PPS's sales network by selling certain insurance products through BCP's branch network. PPS already has begun offering, in collaboration with BCP, a life and health insurance product called Segurimax as well as a personal life insurance product which combines accidental death coverage with renewable term life insurance.

(g) Operations Support

Credicorp's operations are primarily supported by BCP's support departments. Commercial Banking operations are supported by BCP's Credit Department, which evaluates and helps administer credit relationships, establishes credit policies and monitors credit risk. See “—(b) Commercial Banking—(iii) Credit Policy and Review.” BCP's Planning and Finance division is responsible for planning, accounting and investor relations functions. Planning and Finance is also responsible for analyzing the economic, business and competitive environment in order to provide the necessary feedback for senior management's decision-making. BCP's Administration division has responsibility for institutional and public relations, human resources, the legal department, security, maintenance and supplies. The Distribution Channels unit operates the branch network which, as of December 31, 1998, consisted of 114 branches in Greater Lima and 96 branches in the provinces of Peru, the largest number of branches, with the most extensive country coverage, of any privately held bank in Peru. At the same time, in order to improve operating efficiency, BCP is continually evaluating its branch network to monitor branch profitability. In 1996, BCP relocated its transaction processing activities from its branches to a central operation.

ASHC and PPS have independent operations support departments. Credicorp's current strategy is to integrate the operations support departments of its subsidiaries. See “—(a) General.”

BCP spent approximately US\$20 million during 1998 to improve its information systems. BCP is making this investment in order to improve the quality of customer service and to improve its customer databases to allow management to obtain and analyze information on customer and business profitability. These new systems will allow BCP to set competitive pricing more efficiently and to monitor profitability. Credicorp intends to make expenditures of US\$18 million on information systems during 1999.

(h) Employees

At December 31, 1998, Credicorp had 8,743 full-time employees, of which 7,510, 576, 367 and 111 were with BCP, Banco Tequendama, PPS and ASHC, respectively.

All banks in Peru belong to an employee union, and such employee unions are collectively represented by the *Federación de Empleados Bancarios* (the Federation of Banking Employees, or “FEB”). In order to negotiate a collective agreement on behalf of its members, FEB must have as members over 50% of all Peruvian banking employees. Because the representation of FEB has declined to below 50%, the most recent collective bargaining agreement, which expired on June 30, 1995, has not been renewed.

As of December 31, 1998, only two BCP employees belonged to a union. The last strike by union employees occurred in 1991 and did not interfere with BCP’s operations. Due to the limited participation in the union, in 1996 BCP was granted permission by the Peruvian Ministry of Labor to cancel the registration of BCP’s union.

(i) Competition

(i) Banking

The Peruvian banking sector is comprised of 25 banking institutions. At December 31, 1998, BCP ranked first among all Peruvian banks in terms of assets, deposits and loans, representing approximately 24.8%, 28.9% and 23.0%, respectively, of the Peruvian banks. As of such date, the next three largest banks (Banco Wiese Limitado, Banco Continental and Interbank) had deposits representing 16.7%, 17.3% and 7.1%, respectively, and loans representing 16.7%, 13.3% and 7.3%, respectively, of the Peruvian banks.

The Peruvian banking industry has experienced consolidation and increased foreign entry in recent years, following passage of the Banking Law in 1991 and Decree 770 in 1993, which liberalized the banking industry and removed all restrictions on foreign ownership of Peruvian financial institutions. See “—(k) The Peruvian Financial System—General.” Among banks new to Peru in the last several years are Banco del Trabajo, Banco Solventa, Banco del Pais and Serbanco, owned principally by Chilean investors, some of which, after initially focusing on satisfying the demand for consumer loans, sold part of their loans in 1998 to Solución and are now serving other sectors. Privatizations included those of: Banco Continental, the country’s third largest bank, which was acquired by Banco Bilbao Vizcaya of Spain in association with Peru’s Grupo Brescia; and Interbank, purchased in July 1994 by IFH Peru S.A. in association with Banco Osorno y La Union of Chile. Recent acquisitions of Peruvian banks by non-Peruvian companies include those of Banco Interandino and Banco Mercantil, which were purchased by Banco Santander of Spain; Banco de Lima, which was acquired by Banco Sudameris of France; Banco del Sur, which was purchased in early 1996 by a group made up of the Luksic group of Chile, Banco Central Hispano of Spain and HSBC Holdings of Great Britain; and Extebandes, which was purchased in January 1998 by Standard Chartered Bank of the UK.

Credicorp believes that the consolidation and increased foreign ownership within the Peruvian banking industry will continue in the coming years, as banks seek alliances or merge in order to maintain viability in an increasingly competitive environment. As of May 1999, the merger of Banco Wiese and Banco de Lima Sudameris is still in progress, and also the merger of Banco Santander and Banco del Sur was announced. Such increased competition may in the future affect Credicorp’s loan

growth and reduce the average interest rates that it may charge its customers, as well as reduce fee income. Starting in 1996 and through 1998, there was an increase in marketing for deposits and personal and consumer loans, most of the which were matched by BCP's own marketing.

In the Wholesale Banking division, BCP's Corporate Banking division has experienced over the last few years increased competition and a resulting decline in margins, primarily as a result of new entrants into the market, including foreign and recently privatized commercial banks and local and foreign investment banks. In addition, Peruvian companies have gained access to new sources of capital through the local and international capital markets. Credicorp does not intend to pursue corporate lending opportunities that are unprofitable in order to maintain market share. As a result, Credicorp does not expect Corporate Banking to grow at the levels experienced in 1997. However, Credicorp will seek to maintain its close relationships with corporate customers, focusing on providing prompt responses to their requirements and setting competitive prices. In this regard, Credicorp is updating its information systems to improve customer service and to allow management to obtain more efficiently information on customer and business profitability. In addition, Credicorp intends to expand the range of BCP's investment banking and cash management products.

In retail banking, Credicorp has found that small businesses are able to borrow from banks at better rates than those provided by suppliers and that the rates offered by BCP are competitive with those of other banks. Credicorp believes that BCP's reputation as a sound institution, together with its nationwide branch network coverage, provide it with an advantage over its principal competitors.

In its core corporate lending and trade finance businesses, ASHC principally competes with larger institutions such as Citibank. ASHC attributes its ability to compete effectively with larger lending institutions to its aggressive marketing efforts, its ability, as a smaller, more flexible institution, to make decisions quickly and to respond rapidly to customers' needs and to its historic association with BCP and superior knowledge of the Peruvian market.

(ii) Insurance

Peruvian insurance companies compete principally on the basis of price and also on the basis of name recognition, customer service and product features. PPS believes that its competitive pricing, solid image, and quality of customer service are significant aspects of its overall competitiveness. In addition, PPS believes that its long relationship with AIG provides PPS with competitive advantages through access to AIG's expertise in underwriting, claims management and other business areas. While increased foreign entry into the Peruvian insurance market may put additional pressure on premium rates, particularly for commercial coverages, PPS believes that in the longer term foreign competition will increase the quality and strength of the industry. PPS believes that its size and its extensive experience in the Peruvian insurance market provide it with a competitive advantage over foreign competitors.

However, competition in the Peruvian insurance industry has increased substantially since the industry was deregulated in 1991, with competition being particularly strong with respect to large commercial policies, for which rates and coverages typically are individually negotiated. The loss by PPS to competitors of even a small number of major customers or brokers could have a material impact on PPS's premium levels and market share.

(j) Peruvian Government and Economy

While Credicorp is incorporated in Bermuda, substantially all of BCP's and PPS's operations and customers are located in Peru. In addition, although ASHC is based outside of Peru, a substantial number of its customers are located in Peru. Accordingly, the results of operations and financial condition of Credicorp could be affected by changes in economic or other policies of the Peruvian government (which has exercised and continues to exercise a substantial influence over many aspects of the private sector) or other political or economic developments in Peru, including a devaluation of the Peruvian Nuevo Sol relative to the U.S. Dollar or the imposition of exchange controls by the Peruvian government. See "Item 6. Exchange Controls and Other Limitations Affecting Security Holders." In addition, Credicorp's results of operations and financial condition are dependent on the level of economic activity in Peru.

(i) Peruvian Government

During the past several decades, Peru has had a history of political instability that included military *coups d'état* and different governmental regimes with changing policies. Past governments have frequently played an interventionist role in the nation's economy and social structure. Among other things, past governments have imposed controls on prices, exchange rates, local and foreign investment, and international trade, have restricted the ability of companies to dismiss employees, and have expropriated private sector assets. In 1987, the administration of President Alan García attempted to nationalize the banking system. Facing an attempt by the state to control BCP, the majority shareholders of BCP at that time sold a controlling interest in BCP to its employees, which prevented the government from gaining control of BCP. See "—(m) Formation of Credicorp."

For the past decade, Peru has experienced significant levels of terrorist activity, with *Sendero Luminoso* (the "Shining Path") and the *Movimiento Revolucionario Tupac Amaru* (the "MRTA") having escalated their acts of violence against the government and the private sector in the late 1980s and early 1990s. President Alberto Fujimori's government has made substantial progress since being elected to office in 1990 in suppressing Shining Path and MRTA terrorist activity, including the arrest of the leader and the principal second level of leadership in each terrorist group and approximately 2,000 others. In addition, approximately 3,000 additional persons have surrendered to and aided the government under an amnesty law. Notwithstanding the success achieved, some isolated incidents of terrorist activity continue to occur, such as the seizure in December 1996 by the MRTA of the Japanese ambassador's residence in Lima.

Since President Fujimori took office in July 1990, his government has implemented a broad-based reform of Peru's political system, economy and social conditions, aimed at stabilizing the economy, reducing bureaucracy, eradicating corruption and bribery in the judicial system, promoting private investment, developing and strengthening free markets, strengthening education, health, housing and infrastructure and suppressing terrorism. On April 9, 1995, President Fujimori was elected to a second five-year term, with approximately 64% of the vote, and has continued to implement the political and economic policies discussed in this section. The next presidential election is scheduled for April 2000.

(ii) Peruvian Economy

Early in his presidency, President Fujimori liberalized price and wage controls in the private sector, eliminated all restrictions on capital flows, instituted emergency taxes to reduce the fiscal

deficit, and liberalized interest rates. Furthermore, the government established an agenda to institute a wide-ranging privatization plan and re-establish relations with the international financial community.

In the late 1980s and early 1990s the performance of the Peruvian economy was volatile, with the country's gross domestic product ("GDP") contracting by 11.7% in 1989, contracting by 5.2% in 1990, increasing by 2.4% in 1991 and contracting by 2.9% in 1992. In recent years, however, the results of President Fujimori's stabilization plan have resulted in GDP increasing 6.5% in 1993, 12.7% in 1994, 6.9% in 1995, 2.8% in 1996, 7.2% in 1997 and 0.7% in 1998.

Decreased growth in 1998 showed the effects of the "El Niño" phenomenon and the international crises in Asia, Russia and Brazil. Overall economic activity declined due to flooding from "El Niño" rains, which destroyed roads and crops, and reduced the fish catch. The international crisis brought a drop in prices for principal export products, decreased the availability of capital and led to liquidity restrictions. Finally, 1998 saw decline in the purchasing power of the population, lower consumption and the closing of businesses. Principally due to the international financial crisis and the lingering effects of the "El Niño" weather phenomenon and its negative impact on the economy, the Peruvian government estimates that for 1999, GDP will grow approximately 3.0% and inflation will be 6.0%.

The inflation rate in Peru, as measured by the Lima consumer price index, has fallen from 7,650% in 1990 to 139.2% in 1991, 56.7% in 1992, 39.5% in 1993, 15.4% in 1994, 10.2% in 1995, 11.8% in 1996, 6.5% in 1997 and 6.0% in 1998.

Real interest rates have behaved erratically over the past three years but have been falling slowly over this period until September 1998 at which time the trend reversed due to the liquidity constraints brought by the international financial crisis. The nominal monthly interest rate on loans in Nuevos Soles declined from 72% in December 1993 to 30.4% in December 1997, but increased to 37.1% in December 1998.

Peru's trade balance dropped from a surplus of US\$340 million in 1990 to a deficit of US\$1.7 billion in 1997 as a result of trade liberalization and a strong local currency which triggered imports. Peru's deficit increased to US\$2.5 billion in 1998 due to decreases in agricultural produce exports and fishmeal production induced by "El Niño." Peru's current account registered a deficit of US\$3.8 billion in 1998 due to the trade deficit and expenditures in financial services. Peru's capital account, on the other hand, had a surplus of US\$2.4 billion mainly due to the inflow of short and long-term capital. The flow of direct foreign investment into Peru was US\$571 million in 1998, down from US\$835 million in 1997.

There can be no assurance that economic growth will not be reduced or negative in the future or that inflation (whether as a result of an "overheating" of the Peruvian economy, whose foreign trade deficit continues to increase, or otherwise) in Peru will not increase, which events may have an adverse effect on the business, financial condition, results of operations and prospects of Credicorp and adversely affect the market price of the Common Shares. In addition, deposits in the Peruvian financial system are currently much higher than in the late 1980's when hyperinflation caused a lack of confidence in the financial system. A return to high levels of inflation could cause a lack of confidence in the financial system, resulting in withdrawal of deposits.

Although BCP and PPS both earn much of their revenue in U.S. Dollars, if the rate of inflation exceeds the rate of devaluation of the Nuevo Sol relative to the U.S. Dollar, profitability will be

negatively impacted because revenues, expressed in Nuevos Soles, generally will not increase in line with Nuevo Sol-denominated expenses. The results of both BCP and PPS were negatively impacted by this effect in 1994 and 1995.

Peru's recent economic reforms have also caused a reduction of the fiscal deficit. The deficit dropped from 7.1% of GDP in 1989 to a surplus of 2.1% in 1994 before increasing to a deficit of 1.6% in 1995, 1.3% in 1996, 0.9% in 1997, and 0.9% in 1998. One of the factors driving the reduction has been a drop in government spending from 30.2% of GDP in 1988 to 14.9% in 1998. In addition, efforts to increase tax revenues have been successful, with tax collections increasing from 6.7% of GDP in 1989 to 13.8% of GDP in 1998. The fear of an overheating economy led the economic authorities to control fiscal expenses. As a desired consequence, economic growth decelerated during most of 1996 and the first quarter of 1997. The economy's stronger growth in 1997 was noted mainly in the second and third quarters, but "El Niño" started to affect negatively economic activity, principally in the fishing sector, in the last quarter of 1997. GDP growth declined in 1998, especially in the first half of the year as a consequence of worse than anticipated "El Niño" flood related damages, and in the fourth quarter due to liquidity constraints brought on by the international financial crisis.

In October 1995, Peru reached a preliminary Brady agreement with the Bank Advisory Committee representing commercial creditors holding Peru's past due short-, medium- and long-term debt. On June 5, 1996, Peru published the Term Sheet for the 1996 Financing Plan pursuant to which creditors are offered various repayment options. The Peruvian government finalized the Brady agreement in March 7, 1997, achieving a reduction of Peru's external debt (approximately US\$4.9 billion) and a restructuring of future maturities. Additionally, in July 1996 Peru reached an agreement with the Paris Club countries, resulting in the rescheduling of 1996-1998 maturities.

(k) The Peruvian Financial System

As Credicorp's activities will be conducted primarily through banking and insurance subsidiaries operating in Peru, a summary of the Peruvian financial system is set forth below.

(i) General

At December 31, 1998, the Peruvian financial system consisted of the following principal participants: the Central Bank, the SBS, 25 banking institutions (not including Banco de la Nación), seven finance companies, and nine leasing companies. In addition, Peru has various mutual mortgage associations, municipal and rural savings and credit associations, municipal public credit associations, and savings and credit cooperatives.

The present text of *Ley General del Sistema Financiero y del Sistema de Seguros y Orgánica de la Superintendencia de Banca y Seguros* (the General Law of the Financial System, the Insurance System and Organic Law of the Superintendency of Banking and Insurance, or "Law 26702") was passed in December 1996. In general, Law 26702 provides for tighter loan loss reserve standards, makes asset risk weighting in line with the Basel Accord guidelines, widens the supervision by the SBS to include holding companies, and includes specific treatment of a series of recently developed products in the capital markets and derivatives areas. The primary law governing the Peruvian financial system, prior to Law 26702 had been Legislative Decree 637, passed in 1991 as amended by Legislative Decree 770, which substantially reformed the Peruvian financial system, modifying regulations initially passed in 1930.

(ii) Central Bank

The Central Bank was created in 1931. Pursuant to the Peruvian Constitution, its primary role is to ensure the stability of the Peruvian monetary system. The Central Bank regulates Peru's money supply, administers international reserves, issues currency, determines Peru's balance of payments and other monetary accounts, and furnishes information regarding the country's financial situation. It also represents the government of Peru before the International Monetary Fund and the Latin American Reserve Fund.

The highest decision-making authority within the Central Bank is the seven member Board of Directors. Each Director serves a five year term. Of the seven Directors, four are selected by the executive branch and three are selected by the Congress. The Chairman is one of the executive branch nominees, but must be approved by the Congress.

The Board of Directors develops and oversees monetary policy, establishes reserve requirements for entities within the financial system, and approves guidelines for the management of international reserves. All entities within the financial system are required to comply with the decisions of the Central Bank.

(iii) SBS

The SBS, whose authority and activities are discussed under “—(l) Supervision and Regulation,” is the regulatory authority charged with implementation and enforcement of the norms contained in Law 26702 and, more generally, with the supervision and regulation of all financial institutions in Peru.

(iv) Financial System Institutions

Under Peruvian law, financial system institutions are classified as banks, financing companies, other non-banking institutions, specialized companies, and investment banks. A banking institution is defined by law as an enterprise whose principal business consists of the receipt of monies from the public, whether in deposits or under any other contractual form, and the use of such monies (together with its own capital and funds obtained from other sources) to grant loans or discount documents, or in operations subject to market risks. BCP is classified as a bank.

Banks

Banks, as defined by Law 26702, are permitted to carry out various types of financial operations, including the following: receiving demand deposits, time deposits, savings deposits and deposits in trust; granting direct loans; discounting or advancing funds against bills of exchange, promissory notes, and other credit instruments; granting mortgage loans and accepting bills of exchange in connection therewith; granting conditional and unconditional guaranties; issuing, confirming, receiving and discounting letters of credit; acquiring and discounting certificates of deposit issued by banks and finance companies, warehouse receipts, bills of exchange and invoices of commercial transactions; performing credit operations with local and foreign banks, as well as making deposits in such institutions; issuing and placing local currency and foreign currency bonds, as well as promissory notes and negotiable certificates of deposits; issuing certificates in foreign currency and entering foreign exchange transactions; purchasing banks and non-Peruvian institutions which conduct financial intermediation or securities exchange transactions, in order to maintain an international presence;

purchasing, holding and selling gold and silver as well as stocks and bonds listed on one of the Peruvian stock exchanges and issued by companies incorporated in Peru; acting as financial agent for investments in Peru for external parties; purchasing, holding and selling instruments evidencing public debt, whether internal or external, as well as obligations of the Central Bank; making collections, payments and transfers of funds; receiving securities and other assets in trust and leasing safety deposit boxes; and issuing and administering credit cards and accepting and performing trust functions.

In addition, banks may carry out financial leasing operations by forming separate departments or subsidiaries, promote and direct operations in foreign commerce, underwrite initial public offerings, and provide financial advisory services apart from the administration of their clients' investment portfolios. By forming a separate department within the bank, universal banks may also act as trustees in trust agreements.

Law 26702 authorizes banks to operate, through their subsidiaries, warehouse companies, securities brokerage companies and leasing companies, and to establish and administer mutual funds.

Branches of foreign banks enjoy the same rights and are subject to the same obligations as branches of Peruvian banks. Multinational banks, with operations in various countries, may engage in the same activities as Peruvian banks, although their foreign activities are not subject to Peruvian regulations. To carry out banking operations in the local market, such banks must maintain a certain portion of their capital in Peru, in an amount not less than the minimum amount required of Peruvian banks.

Finance Companies

Under Law 26702, finance companies are authorized to carry out the same operations as banks, with the exception of issuing loans as overdrafts in checking accounts; engaging in certain derivative operations; originating securitization operations; and establishing subsidiaries in certain specialized fields, such as bonded warehouses, currency transportation and custody, among others.

Other Financial Institutions

The Peruvian financial system has a number of less significant entities which may provide credit, accept deposits or otherwise act as financial intermediaries on a limited basis. Leasing companies are specialized in financial leasing operations by which goods are leased over the term of the contract with the option of purchasing such goods at a predetermined price. Savings and loans associations or cooperatives may accept certain types of savings deposits and provide other similar financial services.

Peru also has numerous mutual housing associations, municipal savings and credit associations, savings and credit cooperatives and municipal credit bureaus. The impact of these institutions on the financial system in Peru has not been significant.

Insurance Companies

Since the deregulation of the Peruvian insurance industry in 1991, insurance companies are authorized to conduct all types of operations and to enter into all forms of agreements necessary to offer risk coverage to customers. Insurance companies may also invest assets, subject to the regulations on investment limits and reserves established in Law 26702 and the regulations issued by the SBS.

Law 26702 is the principal law governing insurance companies in Peru. The SBS is charged with the supervision and regulation of all insurance companies and the formation of a corporation as an insurance company requires prior authorization of the SBS.

Prior to 1991, all reinsurance activities were conducted through Reaseguradora Peruana S.A., an entity controlled by the Peruvian government. Today, Peruvian insurance companies are permitted to seek reinsurance from other sources.

The insurance industry has experienced consolidation in recent years with the number of companies decreasing from 19 in 1991 to 12 in 1996, but increasing to 16 as of December 31, 1998, as new insurance companies are created specializing in life insurance.

(I) Supervision and Regulation

(i) Credicorp

There are no applicable regulatory controls under the laws of Bermuda that would be likely to have a material impact upon Credicorp's future operations. Under Bermuda law, there is no regulation applicable to Credicorp, as a holding company, that would require Credicorp to separate the operations of its subsidiaries incorporated and existing outside Bermuda. Since Credicorp's activities will be conducted primarily through subsidiaries in Peru, the Cayman Islands, Colombia and El Salvador, a summary of Peruvian banking and insurance regulations and Cayman Islands banking regulations is set forth below.

Certain requirements set forth in Law 26702, which regulates the Peruvian financial and insurance companies, through its provisions for the consolidated supervision of financial institutions, are applicable to Credicorp. Accordingly, various limitations, ratios, and capital requirements are applicable to both BCP and Credicorp.

Since Credicorp's Common Shares are listed on the Lima Stock Exchange, Credicorp is subject to certain reporting requirements of the *Comision Nacional de Seguros y Valores* ("CONASEV") and the Lima Stock Exchange. See "Item 5. Nature of Trading Market—(b) The Lima Stock Exchange—(iii) Market Regulation."

(ii) BCP

Overview

The operations of BCP are regulated by Peruvian law. The regulatory framework for the operations of the Peruvian financial sector is set forth in Law 26702. Implementation and enforcement of the general norms contained in Law 26702 are carried out by various means pursuant to periodic resolutions issued by the SBS. See "—(k) The Peruvian Financial System." The SBS, under the direction of the Superintendent of Banks and Insurance Companies, supervises and regulates those entities that Law 26702 classifies as financial institutions, including commercial banks, finance companies, small business finance companies, savings and loan corporations, financial services companies such as trust companies and investment banks, and insurance companies. Financial institutions must seek the authorization of the SBS before initiating new operations.

BCP's operations are supervised and regulated by the SBS and the Central Bank. Violators of specified provisions of Law 26702 and its underlying regulations are subject to administrative sanctions

and criminal penalties. Additionally, the SBS and the Central Bank have the authority to fine financial institutions and their directors and officers if they violate Peruvian laws or regulations or such financial institutions' by-laws.

CONASEV is the Peruvian government institution charged with promoting the securities markets, supervising the proper management of businesses that trade in the markets, and regulating their activities and accounting practices. One of CONASEV's main functions is to ensure fair competition in the Peruvian securities market. BCP must inform CONASEV of significant events affecting its business and is required to provide financial statements to the Lima Stock Exchange on a quarterly basis. BCP is regulated by CONASEV through Credibolsa, BCP's wholly owned brokerage house, and Credifondo, BCP's wholly owned mutual fund administration company. CONASEV examines Credibolsa and Credifondo on a regular basis.

Under Peruvian law, banks are permitted to conduct brokerage operations and administer mutual funds, but must conduct such operations through subsidiaries. Bank employees, however, may market the financial products of the bank's brokerage and mutual fund subsidiaries. Banks are prohibited from issuing insurance policies, but are not prohibited from distributing insurance policies issued by insurance companies.

Authority of the SBS

Peru's Constitution and Law 26702 (which contains the statutory charter of the SBS) grant the SBS the authority to oversee and control banks and financial institutions (with the exception of brokerage firms), insurance and reinsurance companies, companies that receive deposits from the general public, and other similar entities as defined in the law. In addition, the SBS supervises the Central Bank to ensure that it abides by its statutory charter and by-laws.

The SBS is granted administrative, financial and operating autonomy. Its goals are to protect the interest of the general public, solidify the financial stability of the institutions under its control, and ensure that regulations are observed and that violators are punished. Its responsibilities include: reviewing and approving, with the assistance of the Central Bank, the establishment and organization of its subsidiaries by regulated institutions; overseeing the merger, dissolution, and reorganization of banks, financial institutions, and insurance companies; supervision of companies in the financial and insurance system and of related companies, through ownership or management control as stated in the law, including banking and nonbank holding companies, for which information on an individual and consolidated basis is required; reviewing the by-laws and amendments thereto of these companies; setting forth the criteria for valuing assets, liabilities, and minimum capital requirements authorizing the transfer of bank shares when the law allows for such a transfer; and controlling the *Central de Riesgos* (Bank Risk Assessment Center) to which all banks are legally required to provide information on all businesses or individuals without regard to the amount of the credit risk. The information compiled by this center is available to all banks to allow them to monitor individual borrowers' overall exposure to Peruvian banks.

Capital Adequacy Requirements

Since the approval of Legislative Decree 637 in 1991, the SBS issued new capitalization requirements for credit institutions, adopting a framework structurally similar to that proposed by the Basel Committee on Banking Regulations and Supervisory Practices of International Settlements (the "Basel Accord"). Weights assigned to various classes of assets, and the contents of the classifications,

initially were more stringent under Decrees 637 and 770 than under the Basel Accord. Law 26702 has adopted criteria similar to the Basel Accord and provides for five categories of assets, with different risk weights assigned to each category. The categories range from Risk-free Assets, to which a weighting of 0% is assigned, to Assets, which require a weighing of 100%. Banks are required to prepare and submit to the SBS, within the first 15 days of each month, a report analyzing the bank's assets and portfolio for the previous month and totaling the bank's regulatory capital. Foreign currency denominated assets are valued in Nuevos Soles at the SBS average exchange rate in effect as of the date of each such report.

Regulations for the supervision of market risks, enacted in May 1998, require banks to establish internal policies and procedures to monitor these risks, as well as market risk exposure limits. Regulations define market risks as the probable loss derived from exposure to various classes of commodities, securities, foreign exchange, derivative operations or commercial assets that banks may hold, that could be registered or not in their balance sheets.

According to Article 184 of Law 26702, regulatory capital consists of the sum of (i) paid-in capital, legal reserves, discretionary reserves (if any), generic reserves for losses in the loan portfolio or other indirect credit exposure (up to 1% of the total value of both) and a percentage of certain subordinated bonds issued by the bank, less (ii) equity investments in all subsidiaries consolidated into the financial statements. The resulting amount is adjusted to reflect profits or losses from previous years and from the current year, as well as to reflect adjustments for exposure to inflation and for the deficit in the reserves, less the balance, if any of the reserve for asset revaluation. According to Article 184, regulatory capital can be segmented and applied to cover credit risks and market risks. Beginning in March 1999, the SBS determined the segregation of regulatory capital to cover foreign exchange risk exposure.

Law 26702 requires that the total amount of risk-weighted assets not exceed 11 times the regulatory capital of the bank, meaning that BCP must maintain regulatory capital at a level of at least 9.09% of its total risk-weighted assets. The limit of 11 times risk-weighted assets to regulatory capital will be phased in becoming effective in December 1999. At present a bank's ratio of risk-weighted assets to regulatory capital is required not to exceed 11.5 times (8.7%) regulatory capital. Any bank that is not in compliance with the capital adequacy requirements of Law 26702 is required to post a special deposit with the Central Bank, which is frozen until such bank is within the capital adequacy requirements. Regulatory capital in excess of credit risk requirements may be applied to cover market risks. In general, foreign exchange risk positions require a coverage of 8.7% of regulatory capital. As of December 31, 1998, BCP's unconsolidated amount of risk-weighted assets were 9.2 times the regulatory capital, or regulatory capital was 10.9% of risk-weighted assets.

Legal Reserve Requirements

Pursuant to Article 67 of Law 26702, all banks must create a legal reserve. Each year a bank must allocate 10% of its net income to its legal reserve until its legal reserve is equal to 35% of its paid-in capital stock. Any subsequent increases in paid-in capital will imply a corresponding increase in the required level of the legal reserves to be funded as described above. As of December 31, 1998, BCP's unconsolidated legal reserve was S/437.3 million (US\$139.7 million), equivalent to 46.7% of BCP's paid-in capital as of such date.

Provisions for Loan Losses

Guidelines for the establishment of provisions for loan losses by Peruvian credit institutions, including commercial banks, are set by the SBS. Law 26702 grants authority to the SBS to establish generic loan reserves of up to 1% on loans classified in the Normal (A) risk category. Additionally, Law 26702 does not allow for the consideration of collateral in determining the net amount of outstanding credit risk subject to provision.

See “Item 9. Management’s Discussion and Analysis of Financial Condition and Results of Operations—(a) Historical Discussion and Analysis—Results of Operations for the Three Years Ended December 31, 1997—Provision for Loan Losses.”

Central Bank Reserve Requirements

Under Law 26702, banks and finance companies are required to maintain an *encaje* (legal reserve) for certain obligations. The Central Bank may approve additional and marginal reserves. The exact level and method of calculation of the reserve requirement is set by the Central Bank. For purposes of calculating the required legal reserve, the following, pursuant to regulations issued by the SBS, are obligations: demand and time deposits, savings accounts, securities, certain bonds and funds administered by the bank.

The rate of the legal reserve is 7%, which is calculated upon all obligations subject to the legal reserve. The reserve may be kept in cash by the corresponding bank or finance company or in deposits in current accounts in the Central Bank. As of December 31, 1998, additional reserves for obligations in foreign currency are determined in two steps. First, foreign currency obligations exceeding the base amount, set as the average daily balance during November 1998, are subject to a 20% reserve requirement (which was 45% during 1997). In the second step, the obligations equal to or less than the base amount average balance are subject to a reserve requirement “average rate” of approximately 39%. This average rate was reduced in three consecutive months, 1.5% per month, starting in October 1998. The legal reserve (7%) and the additional reserve must be calculated in Nuevos Soles for obligations in local currency and in U.S. Dollars for obligations in foreign currency. The Central Bank also establishes the interest rate payable from time to time on the reserves that exceed the legal 7% requirement. The Central Bank oversees compliance with the reserve requirements.

In the past few years, the Central Bank has on numerous occasions changed the deposit reserve requirements applicable to Peruvian commercial banks and both the rate of interest paid on deposit reserves and the amount of deposit reserves on which no interest is payable by the Central Bank. Changes in the supervision and regulation of BCP, such as changes in deposit reserve requirements or in the amount of interest payable on deposit reserve requirements, may adversely affect the business, financial condition and results of operations of Credicorp.

Lending Activities

The Banking Law sets maximum amounts of credit that each financial institution may extend to a single borrower. For purposes of the Banking Law, a single borrower includes an individual or an economic group. An economic group constituting a single or common risk, according to Law 26702, includes a person, such person’s close relatives and companies in which such person or close relatives have significant share ownership or decision-making capability. According to current regulations, shareholders who own or control directly or indirectly at least one-tenth of a company’s shares are

considered the significant shareholders. Significant decision-making capability is present when, among other factors, a person or group may exercise material and continuous influence in the decisions of others or when a person or company holds board members or principal officers in another, or when it can be assumed that one company or person is the beneficial recipient of credit facilities granted to another company.

The limits for credits to one borrower vary according to the type of borrower and the collateral taken. The limitation applicable to credits to any Peruvian borrower is 10% of the bank's regulatory capital, applied to both unconsolidated and consolidated records, which may be increased to up to 30% if the loan is collateralized in a manner acceptable under Law 26702. As of December 31, 1998, the 10.0% credit limit per borrower of BCP, unconsolidated, was S/139.0 million (US\$44.4 million) for unsecured loans, and the 30.0% limit amounted to S/417.1 million (US\$133.3 million) for secured loans. If a financial institution exceeds these limits, the SBS may impose a fine on the institution.

In certain very specific circumstances and in order to regulate the market, the Central Bank has the authority to establish maximum limits on the interest rates that commercial banks and other financial institutions may charge on loans pursuant to Article 52 of the organic law of the Central Bank. No such limits are currently in place. There can be no assurance that in the future the Central Bank will not establish maximum limits on the interest rates that commercial banks or other financial institutions may charge.

Related Party Transactions

Law 26702 regulates and limits transactions with related parties and affiliates. In 1997, the SBS and CONASEV enacted regulations with precise definitions of indirect ownership, related parties and economic groups, which serve as the basis for determining transaction limits and for the subsequent development of specific standards for the consolidated supervision of financial and mixed conglomerates formed by financial companies.

The total amount of loans to directors, employees or close relatives of any such person may not exceed 7% of a bank's paid-in capital in the aggregate. All loans made to any single related party borrower may not exceed 0.35% of paid-in capital (*i.e.*, 5% of the overall 7% limit).

In addition, under Law 26702 as amended by Law 27102, the aggregate amount of loans to related party borrowers, considered as an economic group, may not exceed 30% (previously 75%) of a bank's regulatory capital. For purposes of this test, related party borrowers include any corporation holding, directly or indirectly, 4% or more of a bank's shares, directors, certain of a bank's principal executive officers or persons affiliated with the administrators of the bank. See "—Lending Activities" above for the meaning of "economic group" under Law 26702. Loans to individual related party borrowers are also subject to the limits on lending to a single borrower described under "—Lending Activities" above. All loans to related parties must be made on terms no more favorable than the best terms that the bank offers to the public.

Ownership Restrictions

Banks must have at least two unrelated shareholders at all times. Law 26702 establishes certain restrictions on the ownership of a bank's shares. Restrictions are placed on the ownership of shares of any bank by persons that have committed certain crimes, as well as by public officials that have supervisory powers over banks or which are majority shareholders of an enterprise of a similar nature.

All transfers of shares in a bank must be reported after the fact to the SBS by the bank. Transfers involving the acquisition by any individual or corporation, whether directly or indirectly, of more than 10% of a bank's capital stock must receive prior authorization from the SBS. The SBS may deny authorization to such transfer of shares only if the purchasers (or their shareholders in the case of juridical persons) are legally disabled, have engaged in illegal activity in the areas of banking, finance, insurance or reinsurance, or if objections are raised on the basis of the purchaser's moral fitness. In addition, the SBS may deny the transfer without cause. The decision of the SBS on this matter is final, and cannot be overturned in the courts. If a transfer is effected without obtaining the prior approval of the SBS, the purchaser may be fined an amount equivalent to the value of the securities transferred. In addition, the purchaser will be required to sell the securities within thirty days, or the fine will double, and the purchaser is disqualified from exercising its voting rights at shareholders' meetings. Foreign investors receive the same treatment as Peruvian nationals and are subject to the limitations described above.

Risk Rating

Law 26702 and SBS resolution 672, enacted in October 1997, require that all financial companies be rated by at least two risk rating companies on a semi-annual basis (updated in March and September), in addition to the SBS's own assessment. Criteria to be considered in the rating include risk management and control procedures, loan quality, financial strength, profitability, liquidity and financial efficiency. Five risk categories are assigned, from "A", lowest risk, to "E", highest risk, allowing for sub-categories within each letter. As of March 1999, BCP was assigned the "A" risk category by its two rating agencies.

Deposit Fund

Law 26702 provides for mandatory deposit insurance to protect all types of deposits of financial institutions by establishing the *Fondo de Seguro de Depósitos* (Deposit Insurance Fund, or the "Fund") for individuals, associations, not-for-profit companies, and demand deposits of non-financial companies. Financial institutions must pay an annual premium calculated on the basis of the type of deposits accepted by the entity and the risk classification of such entity, made by the SBS and at least two independent risk-rating agencies. The annual premiums begin at 0.45% of total funds on deposit under the coverage of the Fund, if the bank is classified in the lowest risk category, and increase to 1.45% applicable to banks in the highest risk category. For the second quarter of 1999, the maximum amount that a customer is entitled to recover from the Fund was S/63,702 through June 1999.

Intervention by the SBS

The SBS has the power to seize the operations and assets of a bank, with Law 26702, as amended by Law 27102, allowing for three levels: a supervisory regime, an intervention regime and the liquidation of the bank. Any of these actions may be taken upon the occurrence of certain events, including if such bank: (i) interrupts payments on its liabilities, (ii) repeatedly fails to comply with the instructions of the SBS or the Central Bank, (iii) repeatedly violates the law or the provisions of the bank's by-laws, (iv) repeatedly manages its operations in an unauthorized or unsound manner; or (v) its regulatory capital falls or is reduced by more than 50%. Rather than seizing the operations and assets of a bank, the SBS may adopt other measures, including (i) additional requirements on a commercial bank, (ii) ordering it to increase its capital stock or divest certain or all of its assets, or (iii) imposing a special supervision regime during which the bank must adhere to a financial restructuring plan.

SBS intervention, given the occurrence of stated events, may last for a maximum of 45 days, which may be extended for a second period of up to 45 additional days, during which time the SBS will institute corrective measures such as replacing bank management or the board of directors. Depending upon the condition of the institution, the SBS will either make efforts to recapitalize or liquidate the bank.

(iii) ASHC

General

Atlantic Security Bank (“ASB”), a subsidiary of ASHC, is a Cayman Islands bank with a branch in Panama and an agency in Miami. ASB is regulated by the banking authorities of the Cayman Islands and the Panama branch is regulated by the banking authorities of Panama. The Miami agency is regulated by the U.S. Federal Reserve Bank in Atlanta and by the state banking authorities of Florida. The supervision of ASB by Cayman Islands and Panamanian banking authorities is less than the supervision and regulation of U.S. banks by U.S. banking authorities. In particular, ASB does not have a lender of last resort and its deposits are not guaranteed by any government agency.

ASB is licensed in the Cayman Islands pursuant to the Banks and Trust Companies Law (1995 Revision) (the “Cayman Banking Law”). ASB holds an unrestricted Category B Banking License and a Trust License. As a holder of a Category B License, ASB may not take deposits from any person resident in the Cayman Islands other than another licensee or an exempted or an ordinary non-resident company which is not carrying on business in the Cayman Islands.

ASB also may not invest in any asset which represents a claim on any person resident in the Cayman Islands except a claim resulting from: (i) a loan to an exempted or an ordinary non-resident company not carrying on business in the Cayman Islands; (ii) a loan by way of mortgage to a member of its staff or to a person possessing or being deemed to possess Caymanian status under the Immigration Law, for the purchase or construction of a residence in the Cayman Islands to be owner-occupied; (iii) a transaction with another licensee; or (iv) the purchase of bonds or other securities issued by the government of the Cayman Islands, a body incorporated by statute, or a company in which the government is the sole or majority beneficial owner. In addition, ASB may not, without the written approval of the Governor, carry on any business in the Cayman Islands other than for which the “B” license has been obtained.

There are no specified ratio or liquidity requirements under the Cayman Banking Law but the Monetary Authority (the “Authority”) will expect observance of prudent banking practices. However, as a matter of general practice, the ratio of liabilities to capital and surplus should not exceed 40-to-1 and the ratio of risk-weighted assets to capital and surplus should not exceed 8.33-to-1 (12%). There is statutory minimum net worth requirement of US\$480,000 but, in the normal course of events, the Authority will require a bank or trust company to maintain a higher paid-up capital appropriate to its business. It is the practice of the Authority to require compliance with the guidelines promulgated by the Basel Accord on Banking Regulations and Supervisory Practices although, in special circumstances, different gearing and/or capital risk asset ratios may be negotiated. Monitoring of compliance with the Cayman Banking Law is the responsibility of the Authority.

Continuing Requirements

Under the law of the Cayman Islands, ASB is under the following continuing requirements: (i) to ensure good standing under the Cayman Islands Companies Law, including the filing of annual and other returns and the payment of annual fees; (ii) to file with the Registrar of Companies particulars of any change in the information or documents required to be supplied to him and to pay the annual fees; (iii) to file quarterly with the Authority forms MA and BS-P; (iv) to file with the Authority audited accounts within three months of each financial year; in the case of a locally incorporated bank which is not part of a substantial international banking group, current practice is also to request a senior officer or board member to discuss these accounts each year personally at a meeting with the Authority; and (v) to file an annual questionnaire.

ASB is required by the Cayman Banking Law to have at least two directors. Additionally, ASB must receive prior approval from the Authority (i) to any proposed change in the directors or senior officers, though in exceptional cases a waiver can be obtained enabling changes to be reported after the event or even annually in the case of a branch of a substantial international bank; (ii) to the issue, transfer or other disposal of shares (it is rare for a waiver to be granted in respect of shares except in the case of a branch of a substantial international bank and where the shares are widely held and publicly traded); (iii) to any significant change in the “business plan” filed on the filing of the original License application; or (iv) to open outside the Cayman Islands a subsidiary, branch, agency or representative office. Finally, ASB must obtain the prior approval of the Authority to change its name and must also notify the Authority of any change in the principal office and authorized agents in the Cayman Islands.

(iv) Banco Tequendama

The Colombian financial system operates within the framework of Law 45, which has been modified repeatedly since 1990 in order to make it more competitive and to follow the Basle Accord guidelines, including the requirement to report consolidated financial statements. Banking regulations are applied by *Banco de la Republica* (the “Colombian Central Bank”) and by the *Superintendencia Bancaria* (the Banking Superintendency). The Colombian Central Bank is in charge of monetary and exchange rate policies, setting legal reserves and possible interest rate controls. It acts as banker to Colombia’s financial institution and acts as the lender of last resort. The Banking Superintendency supervises financial activities to ensure compliance with Colombia’s law of financial institutions, with the exception of brokerage houses that fall under the jurisdiction of the *Superintendencia de Valores* (the Securities Superintendency).

(v) Banco Capital

The Salvadoran banking system operates within the framework of Decree 765, The Bank and Finance Companies Law, enacted in 1991 as part of a modernization and restructuring process which changed substantially all financial regulations. The banking law is applied by the Central Reserve Bank of El Salvador and by the *Superintendencia del Sistema Financiero* (the “Superintendency”). The Superintendency also supervises the application of Decree 809, The Securities Market Law; therefore, brokerage houses and stock exchanges fall under their jurisdiction.

(vi) Banco de Crédito de Bolivia

The Bolivian banking system operates under the *Ley de Bancos y Entidades Financieras* (the Law of Banks and Financial Entities) No. 1488, enacted on April 14, 1993, which gives supervisory powers to the Superintendency of Banks and Financial Entities. Additionally, the Central Bank of Bolivia regulates financial intermediation and deposit gathering activities, determines monetary and foreign exchange policies, establishes reserve requirements on deposits and capital adequacy guidelines that banks and financial companies must follow. The *Superintendencia de Valores* (the Securities Superintendency) supervises brokerage activities, as conducted through Credibolsa S.A., Banco de Credito de Bolivia's subsidiary, which operates under the *Ley del Mercado de Valores* (the Securities Markets Law) No. 1834, enacted on March 31, 1998.

(vii) PPS

Overview

The operations of PPS are regulated by Peruvian Law 26702. The SBS is responsible for the supervision and regulation of Peruvian financial institutions, including insurance companies. Peruvian insurance companies must submit reports to the SBS regarding their operations. In addition, the SBS conducts on-sight examinations of insurance companies at least on an annual basis, primarily to review compliance with the solvency margin and reserve requirements, investment requirements and the rules governing the recognition of premium income. If the SBS determines that a company is unable to meet solvency margin or technical reserve requirements, or is unable to pay claims as they come due, it may either liquidate the company or permit it to merge with another insurance company.

Under Peruvian law, insurance companies may engage in certain credit risk operations, such as guarantees, bonds and trusteeships, but are prohibited from offering other banking services, operating mutual funds or offering portfolio management services. In addition, insurance companies may not conduct brokerage operations for third parties.

Establishment of an Insurance Company

Insurance companies must seek the authorization of the SBS before commencing operations. Peruvian law establishes certain minimum capital requirements for insurance and reinsurance companies. These requirements must be met through cash investments in the company. The statutory amounts are expressed in constant value and are adjusted quarterly based on the *Indice de Precios al Por Mayor* (the Wholesale Price Index), with a base of October 1996.

Peruvian insurance companies are prohibited from having an ownership interest in other insurance or reinsurance companies or in private pension funds.

Solvency Requirements

Pursuant to Law 26702, the SBS regulates the solvency margin of Peruvian insurance companies, based upon calculations that take into account the amount of premiums written and losses incurred during a specified period prior to date on which the calculation is made.

Insurance companies must also maintain "solvency equity," which must at least be equal to the highest of (a) the solvency margin, or (b) the minimum capital requirement, as established by law, or (c) the company's overall indebtedness, calculated in accordance with the provisions of Law 26702.

The required amount of solvency equity is recalculated at least quarterly and is adjusted for inflation. If the insurance company has outstanding credit risk operations, part of the solvency equity should be segregated for their coverage.

Legal Reserve Requirements

Peruvian law also requires that all insurance companies establish a legal guarantee reserve for policyholders, by setting aside 10% of adjusted income before taxes, until the reserve reaches at least 35% of paid-in capital. For PPS, the minimum capital required as of June 30, 1999 is S/11.0 million (US\$3.3 million).

Reserve Requirements

Pursuant to Law 26702 and regulations issued by the SBS, Peruvian insurance companies must establish Technical Reserves. See “—(d) Insurance—(ii) Claims and Reserves.” In addition, although Law 26702 requires insurance companies to create a reserve for IBNR claims, SBS regulations implementing such law have not been adopted and accordingly PPS, like other Peruvian insurers, generally does not establish IBNR reserves. Under Peruvian law, insurance companies are not required to set aside reserves for estimated claims expenses. However, estimated IBNR claims are reflected as a liability in the Credicorp Consolidated Financial Statements. See Note 2 to the Credicorp Consolidated Financial Statements.

Investment Requirements

Pursuant to Law 26702 the total amount of an insurance company’s “solvency equity” and Technical Reserves must be permanently supported by diversified assets, which assets may not be pledged or otherwise encumbered. The investment regulations further specify that deposits in and bonds of one financial institution together cannot exceed 10% of the total of an insurer’s “solvency equity” and Technical Reserves. In general, no more than 20% of an insurance company’s “solvency equity” and Technical Reserves may be invested in instruments (including stocks and bonds) issued by a company or group of companies. In addition, in order for an insurance company to invest in non-Peruvian securities, such securities should be rated by an internationally recognized credit rating company. Securities owned by insurance companies must be registered in the Public Registry of Securities of Peru or of their respective country.

Related Party Transactions

Law 26702 generally provides that insurance companies may not extend credit to or guarantee the obligations of employees or members of the Board of Directors, except for home mortgage loans to employees.

Ownership Restrictions

Law 26702 establishes the same types of restrictions with respect to the ownership and transfer of insurance company shares as it does with respect to the ownership and transfer of shares in banks. See “—(ii) BCP—Overview.”

(m) Formation of Credicorp

Although historically there had been substantial overlap among the shareholders of BCP, ASHC and PPS, for reasons related to the regulatory, political and economic environment in Peru, they had been managed independently from one another. Credicorp was formed in 1995 by the management of BCP for the purpose of acquiring, pursuant to the Exchange Offer, the common shares of BCP, ASHC and PPS. Credicorp acquired in October 1995 in the Exchange Offer 90.1% of BCP (391,973,951 shares), 98.2% of ASHC (39,346,169 shares), and 75.8% of PPS (5,537,474 shares) in exchange for 60,815,152 Common Shares at a ratio of 0.10401, 0.33708 and 1.2249 Common Shares per common share of BCP, ASHC and PPS, respectively. The Common Shares commenced trading on the New York Stock Exchange immediately upon consummation of the Exchange Offer, with a closing price on such day of US\$11.61 (adjusted to reflect stock dividends through May 1999). On March 19, 1996, Credicorp acquired pursuant to an exchange offer with the same terms as the Exchange Offer the remaining 1.8% of the outstanding shares of ASHC (702,674 shares) in exchange for 237,859 Common Shares at a ratio of 0.33708 Common Shares per common share of ASHC. The closing price of the Common Shares on the New York Stock Exchange on the date of consummation of that exchange offer was US\$10.98 (adjusted to reflect stock dividends through May 1999). See “Item 5. Nature of Trading Market—(a) General” and “Item 8. Selected Financial Data—(a) Dividends.”

Credicorp’s management, which consists of certain principal executive officers of BCP, ASHC and PPS, believes that a unified financial group with a coordinated strategy is best able to take advantage of growth in the Peruvian economy and deregulation of the financial services sector, and to achieve synergies from the cross-selling of financial services and products (e.g., through BCP’s extensive branch network). Credicorp, through its subsidiaries, is now the largest Peruvian provider of financial services in Peru.

BCP began operations in 1889 as Banco Italiano and changed its name to Banco de Crédito del Perú in 1941. BCP has been the largest commercial bank in Peru since the 1920s. Members of the Romero family have been shareholders of the bank since 1918 and became the controlling shareholders in 1979. Mr. Dionisio Romero, Chairman of the Board and Chief Executive Officer of Credicorp, was on the board of directors of BCP from 1966 to 1987, becoming Chairman in 1979. In response to the attempt by the then President of Peru, Alan García, in 1987 to nationalize the Peruvian banking industry, the majority shareholders at that time, including Mr. Romero, sold a controlling interest in BCP and transferred management to its employees, which prevented the government from gaining control of the bank. Upon the election of Alberto Fujimori as President of Peru in 1990 and the introduction of market reforms, the Romero family reestablished its shareholding in BCP and Mr. Romero and several key managers of BCP returned to the bank. The Romero family exchanged their BCP shares in the Exchange Offer, and now hold 18.71% of the Common Shares of Credicorp. See “Item 4. Control of Registrant.”

ASHC was organized in December 1981 as a wholly owned subsidiary of BCP, under the name Credito Del Peru Holding Corporation (“BCP International”), in the Cayman Islands and became the first Peruvian bank to establish an offshore banking presence to serve its Peruvian customers. In 1983, BCP dividended the shares of BCP International to the shareholders of BCP to protect its privately held status in the event BCP were nationalized. BCP International established its first physical presence offshore (previously having been operated through BCP’s corporate offices) by opening an office in Panama in 1984, opened an agency in Miami and changed its name to Atlantic Security Holding Corporation. As a result of the attempted expropriation in 1987, ASHC’s operations and management were made independent of BCP.

PPS was formed in 1992 as a result of a merger between El Pacífico Compañía de Seguros y Reaseguros S.A. and Compañía de Seguros y Reaseguros Peruano-Suiza S.A., and is the largest Peruvian insurance company.

Credicorp acquired on May 16, 1996, through Inversiones Crédito del Perú, S.A. substantially all of the shares of Inversiones El Pacífico-Peruano Suiza S.A. for US\$5.5 million, the principal asset of which was 20% of the shares of AFP Unión, increasing its ownership to 40%. Prior thereto, Credicorp owned 20% of the shares of AFP Unión through Inversiones Crédito del Perú, S.A.

Other significant subsidiaries of Credicorp include BCB (formerly Banco Popular, S.A., Bolivia) acquired by BCP for US\$6.2 million in November 1993 and now Bolivia's second largest bank in terms of loans; Banco de Credito Overseas Limited ("BCOL"), a Bahamian bank through which BCP takes offshore U.S. Dollar deposits and makes U.S. Dollar-denominated loans to large Peruvian customers; Solución Financiera, which specializes in consumer lending; and Credileasing, which conducts lease financing operations and which began operating in July 1996.

Additionally, in January of 1997, Credicorp purchased 99.99% of Banco Tequendama, a Colombian bank with US\$390 million in assets and a minor presence in Venezuela, for US\$48.01 million. Credicorp purchased Banco Tequendama from the *Fondo de Garantía de Depósitos y Protección Bancaria* ("FOGADE"), the Venezuelan government entity responsible for the re-privatization of assets seized by that government in connection with the widespread problems faced by the Venezuelan banking sector beginning in 1994. Credicorp, along with FOGADE and FOGADE's financial adviser, have been sued in Aruba by the former owners of Banco Tequendama, who are seeking to regain the bank. The former owners originally sued unsuccessfully in Colombia. Credicorp, which received an indemnity from FOGADE in connection with the purchase of Banco Tequendama, does not believe that the suit will be successful.

In December 1997, Credicorp extended its presence into El Salvador, through the acquisitions of Banco Capital, a bank, for US\$5.8 million and Casa de Bolsa Capital, a brokerage, for US\$800,000.

(n) Selected Statistical Information

The following tables present certain selected statistical information and ratios for Credicorp for the periods indicated. The selected statistical information should be read in conjunction with the information included under "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(a) Historical Discussion and Analysis" and the Credicorp Consolidated Financial Statements and the notes thereto included elsewhere herein. *The statistical information and discussion and analysis presented below for 1998, 1997 and 1996 reflect the financial position of BCP, ASHC and PPS as of December 31, 1998, 1997 and 1996, of Banco Tequendama and Banco Capital as of December 31, 1997 and 1998, and the results of operations of BCP, PPS and ASHC for 1998, 1997, and 1996, of Banco Tequendama for 1998 and 1997 and of Banco Capital for 1998.*

(i) Average Balance Sheets and Income from Interest-Earning Assets

The tables below set forth selected statistical information based on Credicorp's average balance sheets prepared on a consolidated basis. Except as otherwise indicated, average balances, when used, have been classified by currency (Nuevos Soles or foreign currency (primarily U.S. Dollars)), rather than by the domestic or international nature of the balance, because a substantial amount of the relevant transactions of Credicorp were effected in Peru or on behalf of Peruvian residents and in Nuevos Soles

or U.S. Dollars. In addition, except as noted, such average balances are based on the quarterly ending balances in each year, with any such quarter-end balance denominated in Nuevos Soles having been translated into U.S. Dollars based on the applicable SBS Exchange Rate as of the date of such balance. Nominal average interest rates have, in certain cases, been restated as real average interest rates using the formula described below. Management believes that adjusting average balances and average interest rates for inflation in this manner provides more meaningful information for investors than unadjusted average balances and rates and does not believe that the quarterly averages present trends materially different from those that would be presented by daily averages.

Real Average Interest Rates

The real average interest rates set forth in the tables below have been calculated by adjusting the nominal average interest rates on Nuevo Sol-denominated and foreign currency-denominated assets and liabilities using the following respective formulas:

$$R(s) = \frac{[1 + N(s)]}{[1 + I]} - 1 \qquad R(d) = \frac{[(1 + N(d))(1 + D)]}{[1 + I]} - 1$$

Where:

$R(s)$ = real average interest rate on Nuevo Sol-denominated assets and liabilities for the period.
 $R(d)$ = real average interest rate on foreign currency-denominated assets and liabilities for the period.
 $N(s)$ = nominal average interest rate on Nuevo Sol-denominated assets and liabilities for the period.
 $N(d)$ = nominal average interest rate on foreign currency-denominated assets and liabilities for the period.
 D = devaluation rate of the Nuevo Sol relative to the U.S. Dollar for the period.
 I = inflation rate in Peru for the period (based on the Peruvian wholesale inflation rate).

Under these adjustment formulas, assuming positive nominal average interest rates, the real average interest rate on a portfolio of Nuevo Sol-denominated assets or liabilities would be equal to the nominal average interest rate on that portfolio if the inflation rate were zero. The real average interest rate would be less than the nominal average interest rate if the inflation rate were positive, and the real average interest rate would be greater than the nominal average interest rate if the inflation rate were negative (*i.e.*, becomes a deflation rate). In addition, the real average interest rate would be negative if the inflation rate were greater than the average nominal interest rate.

Similarly, assuming positive nominal average interest rates, the real average interest rate on a portfolio of foreign currency-denominated assets or liabilities would be equal to the nominal average interest rate on that portfolio if the difference between the inflation rate and the devaluation rate were zero. The real average interest rate would be less than the nominal average interest rate if the inflation rate were greater than the devaluation rate, and the real average interest rate would be greater than the nominal average interest rate if the inflation rate were less than the devaluation rate. In addition, the real average interest rate would be negative if the inflation rate were greater than the sum of (i) the average nominal interest rate, (ii) the devaluation rate, and (iii) the product of (A) the average nominal interest rate and (B) the devaluation rate.

The formula for the real average rate for foreign currency-denominated assets and liabilities ($R(d)$) reflects a gain or loss in purchasing power caused by the difference between the devaluation rate of the Nuevo Sol and the inflation rate in Peru during the relevant period.

The following example illustrates the calculation of the real average interest rate for a foreign currency-denominated asset during a particular period bearing a nominal average interest rate of 20% per year ($N(d) = 0.20$) during the period, assuming a 15% annual devaluation rate ($D = 0.15$) and a 25% annual inflation rate ($I = 0.25$) during the period:

$$R(d) = \frac{[(1 + 0.20)(1 + 0.15)]}{[1 + 0.25]} - 1 = 10.4\% \text{ per year}$$

The real average interest rate is less than the nominal average interest rate in this example because the inflation rate is greater than the devaluation rate. If the inflation rate had been less than the devaluation rate (e.g., 25% and 40%, respectively), the real average interest rate would have been greater than the nominal average interest rate. If the inflation rate had been equal to the devaluation rate (e.g., 25% and 25%, respectively), the real average interest rate would have been equal to the nominal average interest rate. At any annual inflation rate above 38% in the original example (which is equal to the sum of $N(d)$, D , and the product of $N(d)$ and D in that example), the real average interest rate would be negative.

The following tables show quarterly average balances for all of Credicorp's assets and liabilities, interest earned and paid amounts, and nominal rates and real rates for Credicorp's interest-earning assets and interest-bearing liabilities, all for the years ended December 31, 1996, 1997 and 1998. Loan fees, which are not material, are included in the tables as interest earned.

Average Balance Sheets

Assets, Interest, and Average Interest Rates

	1996				1997				1998			
ASSETS: (1)	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate
(U.S. Dollars in thousands, except percentages)												
Interest-earning assets:												
Deposits in Central Bank												
Nuevos Soles	[US\$ 3,397	[US\$ —	-10.59%	0.00%	[US\$ 92	US\$ —	-10.59%	0.00%	[US\$ 92	[US\$ ---	-5.67%	0.00%
Foreign Currency	880,614	41,677	4.59	4.73	995,600	44,461	4.32	4.47	1,086,052	46,457	13.19	4.28
Total	884,011	41,677	4.53	4.71	995,692	44,461	4.32	4.47	1,086,144	46,457	13.19	4.28
Deposits in other banks												
Nuevos Soles.....	6,299	810	0.91	12.86	1,516	730	32.47	48.15	13,686	6,132	36.59	44.80
Foreign Currency	182,625	24,188	13.09	13.24	338,254	19,364	5.58	5.72	328,762	25,604	17.00	7.79
Total	188,925	24,998	12.68	13.23	339,770	20,094	5.70	5.91	342,448	31,736	17.79	9.27
Investment securities												
Nuevos Soles.....	27,104	8,635	17.90	31.86	90,001	8,328	-2.31	9.25	114,930	7,237	0.27	6.30
Foreign Currency	166,357	13,541	7.99	8.14	280,060	42,567	15.04	15.20	275,124	47,662	27.35	17.32
Total	193,461	22,176	9.38	11.46	370,062	50,895	10.82	13.75	390,054	54,899	19.37	14.07
Total Loans (2)												
Nuevos Soles.....	535,785	152,985	14.94	28.55	629,912	177,021	14.54	28.10	596,025	173,713	21.82	29.15
Foreign Currency	2,950,970	409,639	13.73	13.88	3,567,868	491,932	13.63	13.79	4,240,450	545,602	22.52	12.87
Total	3,486,755	562,624	13.91	16.14	4,197,781	668,953	13.77	15.94	4,836,475	719,315	22.43	14.87
Total dividend-earning assets (3)												
Nuevos Soles.....	146,607	1,438	-9.71	0.98	154,846	4,993	-7.70	3.22	170,858	4,339	-3.27	2.54
Foreign Currency	67,074	1,650	2.32	2.46	110,226	3,661	3.18	3.32	159,997	9,019	14.67	5.64
Total	213,681	3,088	-5.93	1.45	265,072	8,654	-3.18	3.26	330,855	13,358	5.40	4.04
Total interest-earning assets												
Nuevos Soles.....	719,191	163,868	9.79	22.79	876,367	191,072	8.91	21.80	895,591	191,420	14.49	21.37
Foreign Currency	4,247,641	490,695	11.40	11.55	5,292,009	601,985	11.22	11.38	6,090,384	674,345	20.57	11.07
Total	4,966,832	654,563	11.17	13.18	6,168,376	793,057	10.90	12.86	6,985,976	865,765	19.79	12.39
Noninterest-earning assets:												
Cash and due from banks												
Nuevos Soles.....	94,280				100,648				78,822			
Foreign Currency	186,668				230,196				268,249			
Total	280,948				330,844				347,072			
Reserves for loan losses												
Nuevos Soles.....	(15,422)				(23,889)				(31,725)			
Foreign Currency	(121,175)				(163,775)				(205,383)			
Total	(136,597)				(187,664)				(237,108)			
Premises and equipment												
Nuevos Soles.....	223,088				198,092				190,605			
Foreign Currency	7,459				61,331				90,715			
Total	230,547				259,423				281,320			
Other non interest-earning assets												
Nuevos Soles.....	222,222				181,071				205,283			
Foreign Currency	172,324				125,316				295,469			
Total	394,546				306,387				500,751			
Total non interest-earning assets												
Nuevos Soles.....	524,168				455,923				442,985			
Foreign Currency	245,276				253,067				449,050			
Total	769,443				708,989				892,035			
Total average assets												
Nuevos Soles.....	1,243,359	163,868	1.20	13.18	1,334,280	191,072	2.22	14.32	1,338,577	191,420	7.82	14.30
Foreign Currency	4,492,916	490,695	10.77	10.92	5,543,049	601,985	10.71	10.86	6,539,434	674,345	19.74	10.31
Total	5,736,275	654,563	8.70	11.41	6,877,329	793,057	9.06	11.53	7,878,011	865,765	17.72	10.99

(1) Does not include out-of-period adjustments.

(2) Figures for total loans include past due loans, but do not include accrued but unpaid interest on such past due loans in the year in which such loans became past due. Accrued but unpaid interest for years prior to the year in which a loan became past due is included.

(3) As per IAS, dividends are considered interest income.

Average Balance Sheets

Assets, Interest, and Average Interest Rates

LIABILITIES (1)	1996				Year ended December 31, 1997				1998			
	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate
<i>Interest-bearing liabilities:</i>												
Demand deposits					<i>(U.S. Dollars in thousands, except percentages)</i>							
Nuevos Soles	US\$ 247,809	US\$ 8,971	-7.35%	3.62%	US\$ 250,466	US\$ 15,543	-5.04%	6.21%	US\$293,505	US\$ 13,526	-1.32%	4.61%
Foreign Currency	400,445	8,281	1.93	2.07	463,516	10,511	2.13	2.27	543,618	11,231	10.79	2.07
Total	648,254	17,252	-1.62	2.66	713,982	26,054	-0.39	3.65	837,123	24,757	6.54	2.96
Savings Deposits												
Nuevos Soles (2)	305,883	29,398	-1.99	9.61	310,995	29,370	-2.14	9.44	328,603	28,132	2.41	8.56
Foreign Currency	1,221,948	49,899	3.94	4.08	1,286,003	53,768	4.04	4.18	1,272,238	46,973	12.56	3.69
Total	1,527,831	79,297	2.75	5.19	1,596,998	83,138	2.84	5.21	1,600,841	75,105	10.47	4.69
Time deposits												
Nuevos Soles.....	161,075	24,291	2.90	15.08	197,678	32,148	3.95	16.26	318,721	37,494	5.43	11.76
Foreign Currency	1,754,423	143,693	8.04	8.19	2,073,896	186,126	8.83	8.97	2,436,731	239,691	19.23	9.84
Total	1,915,499	167,984	7.61	8.77	2,271,574	218,274	8.40	9.61	2,755,452	277,185	17.63	10.06
Due to Banks and correspondents												
Nuevos Soles.....	10,973	1,844	4.44	16.80	18,436	2,357	0.85	12.79	23,400	2,425	4.10	10.36
Foreign Currency	485,395	69,240	14.11	14.26	697,720	72,732	10.27	10.42	976,969	89,772	18.52	9.19
Total	496,368	71,084	13.90	14.32	716,156	75,089	10.03	10.49	1,000,369	92,197	18.19	9.22
Total Interest-bearing liabilities												
Nuevos Soles.....	725,741	64,504	-2.64	8.89	777,576	79,419	-1.45	10.21	964,229	81,577	2.31	8.46
Foreign Currency	3,862,212	271,113	6.87	7.02	4,521,134	323,137	7.00	7.15	5,229,555	387,667	16.60	7.41
Total	4,587,952	335,617	5.37	7.32	5,298,710	402,556	5.76	7.60	6,193,784	469,244	14.37	7.58
<i>Non interest-bearing liabilities and Stockholders' equity:</i>												
Other liabilities												
Nuevos Soles.....	216,874				218,784				119,057			
Foreign Currency	323,146				663,070				817,486			
Total	540,020				881,855				936,544			
Stockholders' equity												
Nuevos Soles.....	394,247				476,045				520,368			
Foreign Currency	214,056				220,719				227,315			
Total	608,303				696,764				747,683			
Total non interest-bearing liabilities and stockholders' equity												
Nuevos Soles.....	611,121				694,829				639,426			
Foreign Currency	537,202				883,789				1,044,801			
Total	1,148,323				1,578,618				1,684,227			
Total average liabilities and stockholders' equity												
Nuevos Soles.....	1,336,861	64,504	-6.27	4.83	1,472,405	79,419	-5.76	5.39	1,603,654	81,577	-0.87	5.09
Foreign Currency	4,399,414	271,113	6.02	6.16	5,404,923	323,137	5.83	5.98	6,274,356	387,667	15.26	6.18
Total	5,736,275	335,617	3.15	5.85	6,877,329	402,556	3.35	5.85	7,878,011	469,244	11.97	5.96

(1) Does not include out-of-period adjustments.

(2) Includes the amount paid to Central Bank for deposit insurance fund.

Changes in Net Interest Income and Expense: Volume and Rate Analysis

	1997/1996			1998/1997		
	Increase/(Decrease) due to changes in:			Increase/(Decrease) due to changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
(U.S. Dollars in thousands)						
Interest Income:						
Interest-earning deposits in Central Bank						
Nuevos Soles.....	US\$ --	--	--	US\$ --	--	--
Foreign Currency	5,442	(2,658)	2,784	4,039	(2,044)	1,996
Total.....	5,442	(2,658)	2,784	4,039	(2,044)	1,996
Deposits in other banks						
Nuevos Soles.....	(615)	535	(80)	5,861	(459)	5,402
Foreign Currency	20,612	(25,436)	(4,824)	(543)	6,784	6,240
Total.....	19,997	(24,901)	(4,904)	5,317	6,325	11,642
Investment securities						
Nuevos Soles.....	20,038	(20,346)	(307)	2,307	(3,398)	(1,091)
Foreign Currency	9,255	19,771	29,026	(750)	5,845	5,095
Total.....	29,293	(574)	28,719	1,556	2,448	4,004
Total loans						
Nuevos Soles.....	26,877	(2,840)	24,036	(9,523)	6,215	(3,309)
Foreign Currency	85,635	(3,342)	82,293	92,734	(39,064)	53,671
Total.....	112,511	(6,182)	106,329	83,211	(32,849)	50,362
Total dividend-earning assets						
Nuevos Soles.....	81	3,474	3,555	516	(1,170)	(654)
Foreign Currency	1,062	949	2,011	1,653	3,705	5,358
Total.....	1,142	4,424	5,566	2,169	2,535	4,704
Total interest-earning assets						
Nuevos Soles.....	35,812	(8,609)	27,204	4,192	(3,843)	348
Foreign Currency	120,647	(9,357)	111,290	90,818	(18,458)	72,360
Total.....	156,460	(17,966)	138,494	95,010	(22,302)	72,708
Interest Expense:						
Demand deposits						
Nuevos Soles.....	96	6,476	6,572	2,671	(4,689)	(2,018)
Foreign Currency	1,304	926	2,230	1,816	(1,096)	721
Total.....	1,400	7,401	8,802	4,487	(5,785)	(1,297)
Savings deposits						
Nuevos Soles.....	491	(519)	(28)	1,663	(2,901)	(1,238)
Foreign Currency	2,616	1,253	3,869	(576)	(6,220)	(6,796)
Total.....	3,107	734	3,841	1,087	(9,121)	(8,034)
Time deposits						
Nuevos Soles.....	5,520	2,338	7,858	19,685	(14,339)	5,346
Foreign Currency	26,166	16,267	42,433	32,563	21,002	53,565
Total.....	31,686	18,605	50,291	52,249	6,662	58,911
Due to Banks and Correspondents						
Nuevos Soles.....	1,254	(740)	513	635	(567)	67
Foreign Currency	30,287	(26,796)	3,492	29,110	(12,069)	17,041
Total.....	31,541	(27,536)	4,005	29,744	(12,636)	17,108
Total interest-bearing liabilities						
Nuevos Soles.....	4,607	10,308	14,915	19,064	(16,906)	2,158
Foreign Currency	46,254	5,770	52,024	50,633	13,898	64,530
Total.....	50,861	16,078	66,939	69,697	(3,009)	66,688

- (1) Figures for total loans include past due loans, but do not include accrued but unpaid interest on such past due loans in the year in which such loans became past due. Accrued but unpaid interest for years prior to the year in which a loan became past due is included.

Interest-Earning Assets, Net Interest Margin and Yield Spread

The following table shows for each of the periods indicated, by currency, the levels of average interest-earning assets, net interest income, gross yield, net interest margin and yield spread, all on a nominal basis.

	Year ended December 31,		
	1996	1997	1998
	<i>(U.S. Dollars in thousands, except percentages)</i>		
Average interest-earning assets			
Nuevos Soles	US\$ 719,191	US\$ 876,367	US\$ 895,591
Foreign Currency.....	4,247,641	5,292,009	6,090,384
Total	4,966,832	6,168,376	6,985,976
Net interest income			
Nuevos Soles	99,364	111,653	109,843
Foreign Currency.....	219,582	278,848	286,678
Total	318,946	390,501	396,521
Gross yield (1)			
Nuevos Soles	22.79%	21.80%	21.37%
Foreign Currency.....	11.55%	11.38%	11.07%
Weighted-average rate	13.18%	12.86%	12.39%
Net interest margin (2)			
Nuevos Soles	13.82%	12.74%	12.26%
Foreign Currency.....	5.17%	5.27%	4.71%
Weighted-average rate	6.42%	6.33%	5.68%
Yield spread (3)			
Nuevos Soles	13.90%	11.59%	12.91%
Foreign Currency.....	4.53%	4.23%	3.66%
Weighted-average rate	5.86%	5.26%	4.82%

(1) Gross yield is interest income divided by average interest-earning assets.

(2) Net interest margin represents net interest income divided by average interest-earning assets.

(3) Yield spread, on a nominal basis, represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

Interest-Earning Deposits With Other Banks

The following table shows the short-term funds deposited with other banks broken down by currency as of the dates indicated. Deposits held in countries other than Peru are denominated in several currencies; however, the substantial majority of such deposits are denominated in U.S. Dollars. These currencies were converted to U.S. Dollars in accordance with the methodology described in the introduction to this section “—(n) Selected Statistical Information.”

At December 31,			
	1996	1997	1998
	(U.S. Dollars in thousands)		
Nuevo Sol-denominated:			
Peruvian Central Bank	US\$ 0	US\$ 0	US\$ 0
Commercial banks	349	6	8,616
Total Nuevo Sol-denominated	US\$ 349	US\$ 6	US\$ 8,616
Foreign Currency-denominated:			
Peruvian Central Bank (U.S. Dollars).....	US\$ 950,849	US\$ 1,135,038	US\$ 895,368
U.S. Dollars, other	184,363	361,576	460,533
Other	1,605	5,066	4,799
Total Foreign Currency-denominated	US\$ 1,136,817	US\$ 1,501,680	US\$ 360,700
Total	<u>US\$ 1,137,166</u>	<u>US\$ 1,501,686</u>	<u>US\$ 1,369,316</u>

(ii) Investment Portfolio

The following table shows the net book value of Credicorp's investment securities by type at the dates indicated. Figures shown in this table include marketable securities as investments. See Notes 5 and 7 to the Credicorp Consolidated Financial Statements.

At December 31,			
	1996	1997	1998
	(U.S. Dollars in thousands)		
Nuevo Sol-denominated:			
Peruvian government bonds	US\$ 0	US\$ 0	US\$ 0
Equity securities	128,577	177,824	212,484
Bonds	16,378	21,851	10,313
Certificate Notes	4,994	130,315	15,646
Other Investment.....	0	183	12,748
Total Nuevo Sol-denominated.....	US\$ 149,949	US\$ 330,173	US\$ 251,191
Foreign Currency-denominated:			
Equity securities.....	US\$ 102,079	US\$ 104,318	US\$ 110,892
Bonds.....	123,674	215,828	77,640
Investment in Peruvian debt	19,506	6,491	6,200
Other Investment.....	66,155	153,706	175,810
Total Foreign Currency-denominated.....	US\$ 311,414	US\$ 480,343	US\$ 370,542
Total securities holdings:	US\$ 461,363	US\$ 810,516	US\$ 621,733
Allowance for unrealized losses (1)	(6)	(25)	(7,444)
Total net securities holdings.....	US\$ 461,357	US\$ 810,491	US\$ 614,289

- (1) The allowance for unrealized losses reflects the amount of such reserves at December 31 of each year, which can differ from income statement amounts of provision for fluctuation in value of investment securities if the securities for which the provision was taken during the year are no longer in Credicorp's portfolio at year-end, or if their market value by year-end exceeds their acquisition cost, thus allowing a recovery of provision before year-end.

The weighted-average yield on Credicorp's Nuevo Sol-denominated, interest and dividend-earning investment portfolio was 5.8% in 1996, 5.4% in 1997, and 4.1% in 1998. The weighted-average yield on Credicorp's foreign currency-denominated portfolio was 6.5% in 1996, 11.9% in 1997, and 13.0% in 1998. The total weighted-average yield of Credicorp's portfolio was 6.2% in 1996, 9.4% in 1997, and 9.5% in 1998.

The following table shows the maturities of Credicorp's investment securities by type at December 31, 1998:

	Within 1 year	After 1 year but within 5 years	Maturing After 5 year but within 10 years	After 10 years	Total
<i>(U.S. Dollars in thousands, except percentages)</i>					
Nuevo Sol-denominated:					
Equity securities (1)	US\$ 8,287	US\$ 44,196	US\$ 93,463	US\$ 66,538	US\$ 212,484
Bonds and debentures	10,313	0	0	0	10,313
Peruvian Central Bank certificate notes	15,646	0	0	0	15,646
Other investments	7,589	4,260	663	236	12,748
Total Nuevo Sol-denominated	US\$ 41,835	US\$ 48,456	US\$ 94,126	US\$ 66,774	US\$ 251,191
Foreign Currency-denominated:					
Equity securities	US\$ 65,362	US\$ 0	US\$ 0	US\$ 45,530	US\$ 110,892
Bonds	77,640	0	0	0	77,640
Investment in Peruvian debt	1,126	0	5,074	0	6,200
Other investments	172,383	0	2,981	446	175,810
Total Foreign Currency-denominated	US\$ 316,511	US\$ 0	US\$ 8,055	US\$ 45,976	US\$ 370,542
Total securities holdings:	US\$ 358,346	US\$ 48,456	US\$ 102,181	US\$ 112,750	US\$ 621,733
Allowance for unrealized losses (2)	(7,444)				(7,444)
Total net securities holdings	<u>US\$ 350,902</u>	<u>US\$ 48,456</u>	<u>US\$ 102,181</u>	<u>US\$ 112,750</u>	<u>US\$ 614,289</u>
Weighted average yield					9.47%

- (1) Equity securities in Credicorp's trading account are categorized as maturing within one year, while other equity securities are categorized according to their maturity.
- (2) The allowance for unrealized losses reflects the amount of such reserves at December 31 of each year, which can differ from income statement amounts of provisions for fluctuation in value of investment securities if the securities for which the provision was taken during the year are no longer in Credicorp's portfolio at year-end, or if their market value by year-end exceeds their acquisition cost, thus allowing a recovery of provision before year-end.

Credicorp has established a reserve to be charged in the event that the value of any security held in Credicorp's portfolio falls below historical cost. If the price of any security in Credicorp's portfolio falls below its acquisition price, SBS guidelines require Credicorp to increase the reserve in the amount of the difference between the acquisition cost and the current market value. The provisions taken to establish this reserve are charged to Credicorp's income. At December 31, 1998, this reserve increased to approximately US\$7.4 million, principally due to decreased valuations caused by the international financial crisis.

(iii) Loan Portfolio

Loans by Type of Loan

The following table shows Credicorp's loans by type of loan, at the dates indicated:

	At December 31,				
	1994	1995	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>				
Loans (1).....	US\$ 911,527	US\$1,685,508	US\$2,272,207	US\$3,112,213	US\$3,645,065
Discounted Notes.....	619,222	766,775	783,143	595,436	504,395
Advances and overdrafts	186,331	259,981	359,779	332,275	265,656
Leasing transactions (1)	64,456	95,978	176,726	220,540	260,537
Factoring.....	91,650	115,012	96,219	67,827	38,529
Refinanced loans.....	37,730	43,389	38,161	64,252	84,088
Past due loans (2).....	68,323	73,526	124,481	181,238	306,180
Total loans:	US\$1,979,239	US\$3,040,169	US\$ 3,850,716	US\$4,573,781	US\$5,104,450
Total past due loans amounts	68,323	73,526	124,481	181,238	306,180
Total performing loans	<u>US\$1,910,916</u>	<u>US\$2,966,643</u>	<u>US\$3,726,235</u>	<u>US\$4,392,543</u>	<u>US\$4,798,270</u>

- (1) Figures are net of unearned interest.
(2) Net of unearned interest.

The categorization of the loan portfolio as set forth in the table above is based on the regulations of the SBS, which Credicorp has applied to loans generated by BCP and ASHC. These categories do not correspond to the classifications used in preparing the breakdown of the loan portfolio by business unit set forth under Item 1(b). Pursuant to the guidelines of the SBS, loans are categorized as follows:

Loans: Includes basic term loans documented by promissory notes and other extensions of credit, such as mortgage loans, credit cards and other consumer loans in various forms, including trade finance loans to importers and exporters on specialized terms adapted to the needs of the international trade transaction.

Discounted notes: A loan discounted at the outset; the client signs a promissory note or other evidence of indebtedness for the principal amount payable at a future date. Discounted loans also include discounting of drafts, where Credicorp makes a loan supported by a draft signed by one party and discounted by another party, with recourse to both parties.

Advances and overdrafts: Extensions of credit to clients by way of an overdraft facility in the client's checking account; this category also includes secured short-term advances.

Leasing transactions: Involves the acquisition by Credicorp of an asset and the leasing of that asset to Credicorp's client.

Refinanced loans: Includes loans that were refinanced because the client was unable to pay at maturity. Under SBS regulations, a loan is required to be categorized as a refinanced loan when a debtor is experiencing payment problems, unless the debtor is current on all interest payments and pays down at least 10% of the principal amount of the original loan. The SBS has required refinanced loans as a separate category since 1992.

Past due loans: Includes overdue loans categorized according to the SBS guidelines. See “— Past Due Loan Portfolio” for further detail.

Loans by Economic Activity

The following table shows Credicorp’s total loan portfolio composition based on the borrower’s principal economic activity:

At December 31,						
	1994		1995		1996	
	(U.S. Dollars in thousands, except percentages)					
Economic Activity	Amount	% Total	Amount	% Total	Amount	% Total
Manufacturing.....	US\$ 640,676	32.37%	US\$1,018,316	33.50%	US\$1,149,970	29.86%
Commerce	556,922	28.14	629,526	20.71	884,319	22.97
Agriculture.....	123,975	6.26	185,658	6.11	263,674	6.85
Mining.....	84,210	4.25	152,480	5.02	269,416	7.00
Construction	34,399	1.74	79,221	2.61	92,662	2.41
Financial Services	38,589	1.95	101,090	3.33	153,850	4.00
Communication, Storage And Transportation	118,480	5.99	168,630	5.55	249,246	6.47
Realty Businesses and Leasing Services	105,512	5.33	109,165	3.59	175,908	4.57
Electricity, gas and water	5,668	0.29	16,892	0.56	30,407	0.79
Education, Health and Other Services	7,890	0.40	109,057	3.59	42,561	1.11
Consumer Loans (1).....	193,514	9.78	334,518	11.00	428,970	11.14
Others (2)	69,404	3.50	135,616	4.43	109,733	2.85
Total.....	US\$1,979,239	100.00%	US\$3,040,169	100.00%	US\$3,850,716	100.00%

	At December 31,			
	1997		1998	
	(U.S. Dollars in thousands, except percentages)			
<u>Economy Activity</u>	Amount	%Total	Amount	%Total
Manufacturing.....	US\$1,380,951	30.19%	US\$1,487,158	29.13%
Commerce	1,020,394	22.31	986,227	19.32
Agriculture.....	255,165	5.58	203,844	3.99
Mining.....	240,706	5.26	316,928	6.21
Construction	136,328	2.98	182,799	3.58
Financial Services	97,865	2.14	232,056	4.55
Communication, Storage And Transportation	473,391	10.35	352,193	6.90
Realty Businesses and Leasing Services	188,963	4.13	233,141	4.57
Electricity, gas and water	62,463	1.37	76,493	1.50
Education, Health and Other Services	263,566	5.76	157,004	3.08
Consumer Loans (1).....	320,136	7.00	506,271	9.92
Others (2)	133,853	2.93	370,336	7.26
Total.....	US\$4,573,781	100.00%	US\$5,104,450	100.00%

(1) Includes credit card and mortgage loans, and other consumer loans.

(2) Includes personal banking and small business loans, and other sectors.

As of December 31, 1998, 66% of the loan portfolio was concentrated in Lima and 83% was concentrated in Peru. An additional 9%, 5% and 2% of the loan portfolio was concentrated in Bolivia, Colombia and El Salvador, respectively.

Concentrations of Loan Portfolio and Lending Limits

Credicorp's loans and other contingent credits to the 20 customers (considered as economic groups) to which it had the largest exposure as of December 31, 1998 were US\$678.0 million at that date, of which US\$579.5 million were outstanding loans representing 11.4% of the total loan portfolio. See “—(l) Supervision and Regulation—(ii) BCP—Lending Activities” for the definition of economic group in accordance with SBS regulations. Total loans and other contingent credits outstanding and available to these customers ranged from US\$62.6 million to US\$24.3 million, including two customers each having over US\$57.7 million. Total loans and other contingent credits outstanding and available to Credicorp's 20 largest customers were ranked in the following risk categories as of December 31, 1998: Class A (normal)—84.1%; Class B (potential problems)—14.0%; Class C (substandard)—1.9%; Class D (doubtful)—0%; and Class E (loss)—0%. See “—Classification of the Loan Portfolio.”

BCP's loans to a single borrower are subject to lending limits imposed by Law 26702. See “—(l) Supervision and Regulation.” The applicable Law 26702 lending limits depend on the nature of the borrower involved and the type of collateral received. The sum of loans to and deposits in either another Peruvian universal bank or Peruvian financial institution, plus any guarantees of third party performance received by BCP from such institution, may not exceed 30% of BCP's regulatory capital, as defined by the SBS. The sum of loans to and deposits in non-Peruvian financial institutions, plus any guarantees of third party performance received by BCP from such institutions, are limited to either 5%, 10% or 30% of BCP's regulatory capital, depending upon the governmental supervision to which the institution is subject and upon whether it is recognized by the Central Bank as an international bank of prime credit quality. The limits on lending to non-Peruvian financial institutions increase to 50% of BCP's regulatory capital if the amount by which such loans exceed the 5%, 10% or 30% limits is backed by certain letters of credit.

The limit on loans to individuals not resident in Peru or companies that are not financial institutions are 5% of BCP's regulatory capital; however, this limit increases to 10% if the additional 5% is guaranteed by a mortgage or certain publicly-traded securities. The limit rises to 30% if the additional amount is guaranteed by certain banks or by cash deposits in BCP. Lending on an unsecured basis to individuals or companies resident in Peru that are not financial institutions is limited to 10% of BCP's regulatory capital. This limit rises to 15% if the additional 5% is guaranteed by a mortgage, certain securities, equipment or other collateral and to 20% if the additional amount is either backed by certain debt instruments guaranteed by other local banks, or a foreign bank determined by the Central Bank of prime credit quality, or by other highly liquid securities at market value. Finally, the single borrower lending limit for loans backed by a cash deposit at BCP or by debt obligations of the Central Bank is 30% of BCP's regulatory capital. With an unconsolidated regulatory capital of S/1,390.4 million (US\$444.2 million) at December 31, 1998, BCP's legal lending limits vary from S/69.5 million (US\$22.2 million) to S/695.2 million (US\$222.1 million). Credicorp's consolidated lending limits, based on its regulatory capital on a consolidated basis of US\$707.7 million at December 31, 1998, would range from US\$35.4 million to US\$353.9 million. Management believes that as of December 31, 1998, BCP was in compliance with all Law 26702 lending limits.

As of December 31, 1998, Credicorp complied with the applicable legal lending limits in each of the other jurisdictions where it operates. In addition to these regulatory limits, Credicorp has established an internal limit of 15% of BCP's consolidated equity plus generic reserves (or approximately US\$75 million at December 31, 1998) as the maximum amount of loans and other contingent credits that Credicorp, on a consolidated basis, may extend to any customer. Such limit is calculated quarterly based on Credicorp's consolidated equity plus generic reserves at quarter-end. A

limited number of exceptions to Credicorp's internal limits have been authorized by the Board of Directors from time to time, considering the credit quality of the borrower, the term of the loan and the amount and quality of collateral taken by Credicorp. Credicorp may, in appropriate and limited circumstances, increase or choose to exceed this limit in the future.

In the event that customers to which Credicorp has significant credit exposure are not able to meet their obligations to Credicorp, and any related collateral is not sufficient to cover such obligations, or if a reclassification of one or more of such loans or other contingent credits results in an increase in provisions for loan losses, there may be an adverse impact on the financial condition and results of operations of Credicorp.

Loan Portfolio Denomination

The following table presents Credicorp's Nuevo Sol- and foreign currency-denominated loan portfolio at the dates indicated.

	At December 31,					
	1994		1995		1996	
Total loan portfolio:	(U.S. Dollars in thousands, except percentages)					
Nuevo Sol-denominated.....	US\$ 327,496	16.55%	[US\$ 459,808	15.12%	[US\$ 557,903	14.49%
Foreign Currency-Denominated.....	1,651,743	[83.45	2,580,361	[84.88	3,292,813	[85.51
Total loans.....	US\$1,979,239	100.00%	US\$3,040,169	100.00%	US\$3,850,716	100.00%

	At December 31,			
	1997		1998	
Total loan portfolio:	(U.S. Dollars in thousands, except percentages)			
Nuevo Sol-denominated.....	US\$ 624,220	13.65%	US\$ 556,889	10.91%
Foreign Currency-Denominated.....	3,949,561	86.35	4,547,561	89.09
Total loans.....	US\$4,573,781	100.00%	US\$5,104,450	100.00%

Maturity Composition of the Performing Loan Portfolio

The following table sets forth an analysis of Credicorp's performing loan portfolio at December 31, 1998, by type and by the time remaining to maturity. Loans are stated before deduction of the reserves for loan losses.

	Maturing			
	Amount at December 31, 1998	Within 3 months	After 3 months but within 12 months	After 1 year
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Loans.....	US\$3,645,065	US\$1,583,262	US\$868,383	US\$1,193,421
Discounted notes.....	504,395	332,846	84,912	86,637
Advances and overdrafts.....	265,656	265,656	0	0
Leasing transactions.....	260,537	24,502	61,203	174,832
Factoring.....	38,529	8,289	28,402	1,838
Refinanced loans.....	84,088	19,005	17,215	47,867
Total.....	<u>US\$4,798,270</u>	<u>US\$2,233,560</u>	<u>US\$1,060,115</u>	<u>US\$1,504,595</u>
Percentage of total performing loan portfolio...	100.00%	46.55%	22.09%	31.36%

Classification of the Loan Portfolio

Credicorp classifies BCP's loan portfolio (which includes the loan portfolio of BCB) in accordance with SBS regulations and in the future intends to classify the loan portfolio of ASHC in accordance with SBS regulations also. According to SBS regulations banks must classify all loans and other credits into one of four categories based upon the purpose of the loan; these categories are commercial, micro-business, consumer and residential mortgage. Commercial loans are generally those that finance the production and sale of goods and services, including commercial leases, as well as credit card debt on cards held by business entities. Micro-business loans, exclusively targeted for the production and sale of goods and services, are made to individuals or companies with total assets of no more than US\$20,000, or with no more than US\$20,000 in total loans received from the financial system. Consumer loans are generally loans granted to individuals, including credit card transactions, overdrafts on personal demand deposit accounts, leases, and financing goods or services not related to a business activity. Residential mortgage loans are all loans to individuals for the purchase, construction, remodeling, subdivision or improvement of the individual's own home, in each case backed by a mortgage. Loans made with this purpose made to directors and employees of a company are also considered residential mortgage loans. All other mortgage-backed loans are considered commercial loans. The classification of the loan determines the amount the bank is required to reserve should the borrower fail to make payments as they come due.

Regulations promulgated by the SBS also require Peruvian banks to classify all loans into one of five other categories depending upon the degree of risk of nonpayment of each loan. Credicorp reviews its loan portfolio on a continuing basis, and the SBS reviews the portfolio as it deems necessary or prudent. In classifying its loans based upon risk of nonpayment, Credicorp, in compliance with SBS guidelines, assesses the following factors: the payment history of the particular loans, the history of Credicorp's dealings with the borrower, management, operating history, repayment capability and availability of funds of the borrower, status of any collateral or guarantee, the borrower's financial statements, general risk of the sector in which the borrower operates, the borrower's risk classification made by other financial institutions, and other relevant factors. The classification of the loan determines the amount of the loan loss provision required to be set aside. Law 26702 further requires banks to establish a generic loan loss provision of up to 1% of the bank's loan and credit portfolio classified as A (normal).

Under current regulations, collateral is not subtracted from the amount of the loan or credit outstanding to determine the amount of the loan or credit to be reserved against. Instead, a lower loan provision is allowed to be reserved on the portion of the loan or credit that is secured. For the purpose of determining the reservable amount, collateral is valued according to SBS regulations which require that an appraisal be determined based on expected market valuation. Only assets considered as "preferred" are acceptable as collateral, which, according to SBS regulations, (1) are relatively liquid, (2) their ownership is legally documented, (3) have no liens and (4) their appraisal is constantly updated. Regulations consider cash deposits, real state mortgages, pledges on securities or on other goods, among other things, allowable assets.

Beginning June 30, 2000, current regulations require the following reserves for commercial, micro-business and mortgage loans: a 1% generic reserve on loans and credits classified in the A (Normal) category, and a 5%, 25%, 60% and 100% specific reserve on loans and credits in risk categories B, C, D and E, respectively. Whenever such loans or credits are secured with collateral, required reserves for risk categories B, C, D and E would be: 2.5%, 12.5%, 30% and 60%, respectively. When the collateral is insufficient to secure the outstanding balances, the higher

percentage requirements are applicable on the unsecured portion of the loans or credits. In the case of consumer loans, the required reserves are as follows: a 1% generic reserve on loans classified in the A (Normal) category, and a 5%, 30%, 60% and 100% specific reserve on loans in risk categories B, C, D and E, respectively.

The five loan risk categories have the following characteristics:

Class "A." Loans or credits in this category are known as "normal" credits. The debtors on commercial loans or credits that warrant this classification are those who have complied on a timely basis with their obligations and at the time of evaluation of the credit do not present any doubt with respect to the repayment of interest and principal on the loan on the agreed upon dates, and where Credicorp has no reason to believe that the status will change before the next evaluation. To place a loan or credit in Class A, a clear understanding of the use to be made of the funds and the origin of the cash flows to be used by the debtor to repay the loan or credit is required. Micro-business and consumer loans warrant Class A classification if payments are current or up to eight days past-due. Residential mortgage loans warrant Class A classification if payments are current or up to thirty days past-due. Loans or credits in this category required a general reserve of 1% of the total of such loans or credits outstanding.

Class "B." Loans or credits in this category are known as credits with "potential problems." Debtors on commercial loans or credits included in this category are those that at the time of the evaluation of the credit demonstrate certain deficiencies, which, if they are not corrected in a timely manner, imply risks with respect to the recovery of the loan. Certain common characteristics of loans or credits in the category include: delays in loan payments which are promptly covered; a general lack of information required to analyze the credit; out-of-date financial information; temporary economic or financial imbalances on the part of the debtor which could effect its ability to repay the loan; market conditions that could affect the economic sector in which the debtor is active; material overdue debts or pending judicial collection actions initiated by other financial institutions; noncompliance with originally contracted conditions; conflicts of interest within the debtor company; labor problems; unfavorable credit history; noncompliance with internal policies of the debtor company; excessive reliance on one source of raw materials or one buyer of the debtor's products; and low inventory turnover ratios or large inventories that are subject to competitive challenges or technological obsolescence. Micro-business and consumer loans are categorized as Class B if payments are between nine and 30 days late. Residential mortgage loans become Class B when payments are between 31 and 90 days late. As of June 30, 2000 a 5% specific reserve on total loans outstanding in this category is required. When the loan is secured, the percentage is 2.5%, except for consumer loans.

Class "C." Loans or credits in this category are known as "substandard" credits. Debtors on commercial loans or credits whose loans or credits are placed in this category demonstrate serious financial weakness, often with operating profits or available income insufficient to cover financial obligations on agreed upon terms, with no reasonable short-term prospects for a strengthening of the debtor's financial capacity. Loans or credits demonstrating the same deficiencies that warrant classification as category B credits warrant classification as Class C credits if those deficiencies are such that if they are not corrected in the near term, they could impede the recovery of principal and interest on the loan on the originally agreed terms. Additionally, commercial loans are classified in this category when payments are between 60 and 120 days late. If payments on a micro-business or consumer loan are between 31 and 60 days late, such loans are classified as Class C. Residential mortgage loans are classified as Class C when payments are between 91 and 120 days late. As of June 30, 2000 commercial, micro-business and mortgage loans or credits included in this class require a

specific provision of 25% of the outstanding amount (12.5% when secured), whereas consumer loans require a 30% provision.

Class "D." Loans or credits included in this category are known as "doubtful" credits. Debtors on commercial loans or credits included in this classification present characteristics of actual credit risk that make doubtful the recovery of the loan. Although the loan recovery is doubtful, if there is a reasonable possibility that in the near future the credit-worthiness of the debtor might improve, a Class D categorization is appropriate. These credits are distinguished from Class E credits by the requirement that the debtor remain in operation, generate cash flow, and make payments on the loan, albeit at a rate less than its contractual obligations. Additionally, commercial loans are classified in this category when payments are between 121 and 365 days late. Micro-business and consumer loans are categorized as Class D if payments are between 61 and 120 days late. Residential mortgage loans are Class D when payments are between 121 and 365 days late. As of June 30, 2000 loans or credits included in this class require a specific provision of 60% of the outstanding amount. When the loan is secured, the percentage is 30%, except for consumer loans.

Class "E." Loans or credits in this class are known as "loss" credits. Commercial loans or credits which are considered unrecoverable or which for any other reason do not justify carrying on the books of Credicorp as an asset on the originally contracted terms must be so categorized. Additionally, commercial loans are classified in this category when payments are between more than 365 days late. Micro-business and consumer loans are categorized as Class E if payments are more than 120 days late. Residential mortgage loans become Class E when payments are more than 365 days late. As of June 30, 2000 loans or credits included in this class require a specific provision of 100% of the outstanding amount. When the loan is secured, the percentage is 60%, except for consumer loans.

SBS regulations consider as refinanced credits those loans or credits that change their payment schedules due to difficulties in the debtor's ability to repay the loan. Refinanced credits have to be classified as class "C" or in a higher risk category. For an effective control, financial institutions should keep in order all the contracts for refinanced credits, with their clauses adequately defined and their repayment programs based on the payment capacity of their debtors and on the collateral provided.

ASHC historically has classified its loan portfolio voluntarily in accordance with the U.S. Federal Reserve classification guidelines, according to which all credits are classified as "normal," "special mention," "substandard," "doubtful" or "loss." Pursuant to such guidelines, the loan loss provisions taken in any given year are based on an evaluation of the quality of the loan portfolio and the related collateral, general economic conditions and other factors that management believes deserve recognition in estimating possible loan losses. Based upon this analysis, a specified percentage of the loans in each category is required to be reserved. A loan which is deemed substandard or below is classified for the full amount, not partially. In accordance with the U.S. Federal Reserve guidelines, special mention (0%-10% reserve) includes those credits that have a potential weakness that merits management's close attention; substandard (10-25% reserve) credits are those that are inadequately protected by the current sound worth or paying capacity of the debtor; doubtful (50% reserve) includes those credits that have the same weaknesses exhibited in substandard, plus additional problems that cause doubt as to whether or not full repayment will occur; and loss (100% reserve) refers to those credits that are considered uncollectible.

The following table shows Credicorp's loan portfolio at the dates indicated:

Level of Risk Classification	At December 31,					
	1994		1995		1996	
	(U.S. Dollars in thousands, except percentages)					
	Amount	% Total	Amount	% Total	Amount	% Total
A: Normal	US\$1,568,813	79.3 %	US\$2,558,714	84.2%	US\$3,103,849	80.6 %
B: Potential Problems	205,673	10.4	267,751	8.8	443,193	11.5
C: Substandard	106,626	5.4	116,448	3.8	163,232	4.2
D: Doubtful	86,138	4.3	84,055	2.8	99,441	2.6
E: Loss	11,989	0.6	13,201	0.4	41,001	1.1
Total	<u>US\$1,979,239</u>	<u>100.0 %</u>	<u>US\$3,040,169</u>	<u>100.0%</u>	<u>US\$3,850,716</u>	<u>100.0 %</u>
C+ D+ E	US\$204,753	10.3 %	US\$ 213,704	7.0%	US\$303,674	7.9 %

Level of Risk Classification	At December 31,			
	1997		1998	
	Amount	% Total	Amount	% Total
A: Normal	US\$3,570,557	78.1 %	US\$3,892,883	76.3 %
B: Potential Problems	526,049	11.5	566,411	11.1
C: Substandard	232,021	5.1	304,327	6.0
D: Doubtful	177,078	3.9	235,627	4.6
E: Loss	68,076	1.5	105,202	2.1
Total	<u>US\$4,573,781</u>	<u>100.0 %</u>	<u>US\$5,104,450</u>	<u>100.0 %</u>
C+ D+ E	US\$477,175	10.5 %	US\$645,156	12.6 %

All of the Class E loans and substantially all of the Class D loans are past due. Class C loans, although generally not past due, have demonstrated credit deterioration such that management has serious doubts as to the ability of the borrower to comply with the present loan repayment terms. The majority of these Class C loans are to companies in the Peruvian manufacturing sector and, to a lesser extent, the agricultural sector. The manufacturing sector loans are primarily secured by warrants and liens on goods or by mortgages, whereas the agricultural credits tend to be secured by trade bills and marketable securities. The Class C loans reflect the financial weakness of the individual borrower rather than any trend in the Peruvian manufacturing or agricultural industries in general. In addition, the collateral securing these loans is only considered for purposes of establishing the reserve and not for purposes of the classification. Credicorp believes that the collateral securing its Class C loans has not been significantly impaired by the credit deterioration of the borrower.

Classification of the Loan Portfolio Based on the Borrower's Payment Performance

Credicorp considers loans to be past due depending on their type. BCP considers loans past due after no more than 15 days, except for consumer loans and other installment loans, which include mortgage loans, which are considered past due after 30 days. ASHC considers past due all overdue loans except for consumer loans, which are considered past due when the scheduled principal and/or interest payments are overdue for more than 90 days. Accrued interest on past due loans is recognized only when and to the extent received. With the exception of discounted notes and overdrafts, accrued but unpaid interest is reversed for past due loans. The following table sets forth the repayment status of Credicorp's loan portfolio as of December 31 of each of the last three years:

	At December 31,				
	1994	1995	1996	1997	1998
	<i>(U.S. Dollars in thousands, except percentages)</i>				
Current	US\$1,910,916	US\$2,966,643	US\$3,726,235	US\$4,392,543	US\$4,798,270
Past due:					
Overdue 16-119 days.....	9,117	17,146	35,454	56,496	160,282
Overdue 120 days or more	59,206	56,380	89,027	124,742	145,898
Subtotal.....	<u>US\$ 68,323</u>	<u>US\$ 73,526</u>	<u>US\$ 124,481</u>	<u>US\$ 181,238</u>	<u>US\$ 306,180</u>
Total loans	<u>US\$1,979,239</u>	<u>US\$3,040,169</u>	<u>US\$3,850,716</u>	<u>US\$4,573,781</u>	<u>US\$5,104,450</u>
Past due loan amounts as a percentage					
Of total loans.....	3.45%		3.23%	3.96%	6.00%

With respect to consumer installment loans, BCP, in accordance with SBS regulations adopted in the first quarter of 1996, only recognizes as past due installments for consumer installment loans that are past due for fewer than 90 days. The entire amount of a consumer installment loans will be considered past due if any amount is past due more than 90 days.

Past Due Loan Portfolio

The following table analyzes Credicorp's past due loan portfolio by type of loan at the dates indicated:

	December 31,				
	1994	1995	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>				
Past due loan amounts:					
Loans	US\$ 16,670	US\$ 23,965	US\$ 44,964	US\$ 65,346	US\$178,142
Discounted notes	38,581	34,089	55,106	88,026	87,768
Advances and overdrafts in demand					
deposits	10,467	7,588	13,135	21,138	18,383
Leasing transactions	2,167	3,198	3,465	5,374	7,827
Refinanced Loans.....	438	4,686	7,811	1,354	14,060
Total past due portfolio	<u>US\$ 68,323</u>	<u>US\$ 73,526</u>	<u>US\$124,481</u>	<u>US\$181,238</u>	<u>US\$306,180</u>
Specific reserves	US\$ 79,745	US\$ 76,310	US\$108,396	US\$183,311	US\$242,074
Generic reserves.....	26,933	43,299	52,205	26,499	28,008
Total reserves for loan losses	106,678	119,609	160,601	209,810	270,082
Total past due portfolio net of total	<u>US\$(38,355)</u>	<u>US\$(46,083)</u>	<u>US\$(36,120)</u>	<u>US\$(28,572)</u>	<u>US\$ 36,098</u>
Reserves					

The amount of interest income collected from loans classified as past due at December 31, 1997 and 1998 was US\$7.4 million and US\$10.5 million, respectively. In accordance with Credicorp's accounting policies, interest on loans classified as past due is recorded on a cash basis. As of December 31, 1997 and 1998, the interest that would have been recorded on these loans in accordance with their original terms and conditions amounted to approximately US\$62.1 million and US\$54.4 million, respectively.

Loan Loss Reserves

The following table shows the changes in Credicorp's reserves for loan losses and movements at the dates indicated:

	Year ended December 31,				
	1994	1995	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>				
Reserves for loan losses at the beginning of the year....	US\$101,456	US\$106,678	US\$119,609	US\$160,601	US\$209,810
Additional provisions.....	38,386	52,812	71,871	112,791	180,192
Acquisitions.....	--	--	--	--	11,236
Reversals of previous provisions (net) and transfers	(19,175)	(23,159)	(14,036)	(23,126)	(9,632)
Specific reserves.....	(19,175)	(23,159)	(14,036)	(23,105)	(8,252)
Generic reserves	--	--	--	(21)	(1,380)
Write-offs.....	(5,385)	(13,833)	(16,291)	(39,780)	(119,994)
Monetary Correction and Other.....	(8,604)	(2,889)	(552)	(676)	(1,530)
Reserves for loan losses at the end of the year.....	<u>US\$106,678</u>	<u>US\$119,609</u>	<u>US\$160,601</u>	<u>US\$209,810</u>	<u>US\$270,082</u>

For a discussion of the risk elements in the loan portfolio and the factors considered in determining the amount of specific reserves, see “—Classification of the Loan Portfolio.” As required under SBS regulations, discretionary charges for generic reserves were based on Management's assessment of the general risk posed to the loan portfolio by the economic conditions existing in Peru.

Under current Peruvian banking regulations, there is a substantial delay between the identification of a loan as non-performing and the partial or full charging-off of such loan. This delay may span years, as banks are required to exhaust legal remedies and demonstrate the absolute non-collectability of a loan (generally through liquidation or bankruptcy of the borrower). However, prior to 1994, the high level of inflation in Peru had the effect of substantially reducing the amount of loans to be charged-off and, therefore, Credicorp did not charge-off any loans during the years 1991 through 1993. In addition, in 1995 and 1996, Credicorp sold certain of its past due loans to a non-Peruvian wholly owned subsidiary for a nominal amount with the same effect as if the loans had been charged-off following regulations in effect since this year. In 1997, SBS regulations has further facilitated the charge-off process reducing the period required for the loans to be past-due. Accordingly, Credicorp believes that its past due loan amounts are not materially different from what they would be were it permitted to charge-off loans prior to demonstrating the absolute non-collectability of the loan.

(iv) Deposits

The following table presents the components of Credicorp's deposit base at the dates indicated:

	At December 31,		
	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>		
Demand deposits:			
Nuevo Sol-denominated.....	US\$ 272,687	US\$ 379,367	US\$ 297,872
Foreign Currency-denominated.....	514,063	739,669	662,269
Total.....	US\$ 786,750	US\$ 1,119,036	US\$ 960,141
Savings deposits:			
Nuevo Sol-denominated.....	US\$ 313,249	US\$ 364,904	US\$ 309,820
Foreign Currency-denominated.....	1,360,171	1,464,544	1,386,612
Total.....	US\$ 1,673,420	US\$ 1,829,448	US\$1,696,432
Time deposits: (1)			
Severance Indemnity Deposits (CTS)			
Nuevo Sol-denominated.....	US\$ 55,818	US\$ 56,526	US\$ 50,054
Foreign Currency-denominated	510,174	511,123	520,475
Total.....	US\$ 565,992	US\$ 567,649	US\$ 570,529
Foreign Currency Bank Certificates			
Foreign Currency-denominated.....	US\$ 267,994	US\$ 271,387	US\$ 216,374
Other deposits: (1)			
Nuevo Sol-denominated.....	US\$ 124,051	US\$ 169,474	US\$ 282,859
Foreign Currency-denominated.....	1,016,880	1,475,259	1,757,707
Total.....	US\$ 1,140,931	US\$ 1,644,733	US\$2,040,566
Total deposits:			
Nuevo Sol-denominated.....	US\$ 765,805	US\$ 970,270	US\$ 940,605
Foreign Currency-denominated.....	3,669,282	4,461,983	4,543,437
Total.....	<u>US\$ 4,435,087</u>	<u>US\$ 5,432,253</u>	<u>US\$5,484,042</u>

(1) Includes leasing bonds. See Note 10 to the Credicorp Consolidated Financial Statements.

The following table sets forth information regarding the maturity of Credicorp's time deposits in denominations of US \$100,000 or more at December 31, 1998:

	At December 31, 1998
	<i>(U.S. Dollar in thousands)</i>
Certificates of deposits:	
Maturing within 30 days	US\$ 26,144
Maturing after 30 but within 60 days	10,859
Maturing after 60 but within 90 days	6,245
Maturing after 90 but within 180 days.....	7,368
Maturing after 180 but within 360 days	5,300
Maturing after 360	<u>2,658</u>
Total certificates of deposits	US\$ 58,574
Time Deposits:	
Maturing within 30 days	US\$ 324,070
Maturing after 30 but within 60 days	519,578
Maturing after 60 but within 90 days	342,994
Maturing after 90 but within 180 days.....	131,073
Maturing after 180 but within 360 days	21,285
Maturing after 360	<u>14,909</u>
Total time deposits.....	US\$ 1,353,909
Total.....	US\$ 1,412,483

(v) Return on Equity and Assets

	At December 31,		
	1996	1997	1998
Return on assets(1)	2.05%	1.57%	0.53%
Return on equity (2).....	18.79%	15.64%	5.63%
Dividend payout ratio(3).....	30.80%	35.10%	44.80%
Equity to assets ratio (4)	10.60%	10.13%	9.49%

-
- (1) Net income as a percentage of average total assets, computed as the average of period beginning and period ending balances.
(2) Net income as a percentage of average shareholder's equity, computed as the average of period beginning and ending balances.
(3) Dividends declared per share divided by net income per share.
(4) Average equity divided by average total assets, both averages computed as the average of quarter-ending balances.

(vi) Short-Term Borrowings

Credicorp's short-term borrowings, other than deposits, amounted to US\$528.0, US\$732.5 and US\$712.4 million as of December 31, 1996, 1997 and 1998, respectively. Foreign trade lines of credit comprise the most important short-term borrowing category and the only exceeding 30% of net equity. Trade lines of credit comprise 75% of all short-term borrowings.

The following table presents Credicorp's short-term borrowings:

	At December 31,		
	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>		
Year-end balance	US\$ 528,028	US\$ 732,469	US\$ 712,412
Average balance (1)	US\$ 523,706	US\$ 679,950	US\$ 749,269
Maximum quarter-end balance.....	US\$ 604,014	US\$ 825,802	US\$ 874,665
Weighted average nominal			
Year-end interest rate	6.20%	6.83%	6.84%
Weighted average nominal			
Interest rate (1)	6.17%	6.75%	6.99%

(1) Determined from the average of quarter-end amounts.

ITEM 2. DESCRIPTION OF PROPERTY

At December 31, 1998, Credicorp had approximately 352 branch, representative and similar offices, of which 114 were branch offices of BCP in Greater Lima. Credicorp's principal properties include the headquarters of BCP, at Calle Centenario 156, Las Laderas de Melgarejo, La Molina, Lima, Peru, and the headquarters of PPS at Avenida Arequipa 660, Lima, Peru. Credicorp owns each of these properties, except for approximately 52 properties which it holds under leases. There are no material encumbrances on any of Credicorp's properties.

ITEM 3. LEGAL PROCEEDINGS

Credicorp and its subsidiaries are involved in certain legal proceedings incidental to the normal conduct of their businesses. In addition, Credicorp is involved in certain legal proceedings in connection with its acquisition of Banco Tequendama. (See "Item 1. Description of Business-(m) Formation of Credicorp"). Credicorp does not believe that any potential liabilities resulting from such proceedings would have a material adverse effect on the financial condition or results of operation of Credicorp or any of its subsidiaries.

ITEM 4. CONTROL OF REGISTRANT

As of June 8, 1999, there were 94,382,317 Common Shares issued, of which 13,378,733 Common Shares were held by BCP, ASHC and PPS. Under Bermuda law, BCP, ASHC and PPS have the right to vote the Common Shares they own. The table below provides details about the percentage of Common Shares owned by Credicorp's directors and officers as a group and each holder of 10% or more of Common Shares, as of June 8, 1999.

<u>Owner</u>	<u>Common Shares</u>	<u>Percent of Class (1)</u>
Romero family(2)	17,656,907	18.71%
Directors and officers as a group(3)	3,007,211	3.19%
Atlantic Security Holding Corporation	10,158,204	10.76%
Capital Group International, Inc. (4)	9,905,130	10.50%

(1) As a percentage of issued and outstanding shares (including treasury shares).

(2) Includes Common Shares directly or indirectly owned by Dionisio Romero and his family, including José Antonio Onrubia, or companies owned or controlled by them. Mr. Romero is the Chairman and Chief Executive Officer of Credicorp; Mr. Onrubia is a Director of Credicorp. Messrs. Romero and Onrubia are first cousins.

(3) Does not include Dionisio Romero, Chairman of the Board and Chief Executive Officer, and José Antonio Onrubia, Director, whose share ownership is included under "Romero family" in the table.

(4) Capital Group International, Inc., a financial holding company owning investment management companies, may be deemed the beneficial owner of these shares that are owned by its subsidiary investment management companies.

Credicorp is not directly or indirectly controlled by another corporation or by any foreign government.

ITEM 5. NATURE OF TRADING MARKET

(a) General

As of June 8, 1999, 81,003,584 Common Shares (excluding 13,378,733 treasury shares) were outstanding; of which approximately 61% were held in the United States. As of such date, there were 223 record holders of Common Shares in the United States. Because certain of these Common Shares were held by brokers or other nominees and due to the impracticability of obtaining accurate residence information for all shareholders, the number of holders of record or registered holders in the United States is not representative of the number of beneficial holders or of the residence of beneficial holders.

Credicorp's Common Shares trade on the New York Stock Exchange and the Lima Stock Exchange. The table below sets forth, for the periods indicated, the reported high and low sale prices and average daily trading volume for the Common Shares on the New York Stock Exchange. The Common Shares are quoted in U.S. Dollars on both the New York Stock Exchange and the Lima Stock Exchange.

	<u>High(1)</u>	<u>Low(1)</u>	<u>Average Daily Volume*</u>
1996			
First quarter	\$12.66	\$10.68	196,266
Second quarter	\$14.88	\$10.86	88,131
Third quarter	\$15.25	\$13.96	51,430
Fourth quarter	\$14.25	\$12.48	100,555
1997			
First quarter	\$17.66	\$13.50	76,759
Second quarter	\$21.93	\$17.29	90,779
Third quarter	\$20.68	\$16.98	137,259
Fourth quarter	\$17.89	\$15.28	103,924
1998			
First quarter	\$16.48	\$13.42	66,729
Second quarter	\$17.27	\$13.66	106,051
Third quarter	\$15.00	\$ 5.70	116,170
Fourth quarter	\$14.82	\$ 6.37	117,941
1999			
First quarter	\$ 9.92	\$ 7.35	97,727
Second quarter (through June 8)	\$10.93	\$10.56	145,738

* Source: Bloomberg, Economatica

- (1) The Common Share prices shown above have been adjusted retroactively to reflect stock dividends. Credicorp declared a stock dividend on February 26, 1998 of 0.100 Common Shares for each Common Share held at the close of business on March 31, 1998.
- (2) The Common Shares began trading on the New York Stock Exchange on October 25, 1995.

The table below sets forth, for the periods indicated, the reported high and low closing prices and trading volume for the Common Shares on the Lima Stock Exchange.

	<u>High(1)</u>	<u>Low(1)</u>	<u>Average Daily Volume*</u>
1996			
First quarter.....	\$12.00	\$10.40	49,922
Second quarter.....	\$14.28	\$10.78	45,690
Third quarter.....	\$14.81	\$13.68	42,728
Fourth quarter	\$14.03	\$12.23	47,269
1997			
First quarter.....	\$17.46	\$12.99	55,633
Second quarter.....	\$21.00	\$17.13	45,166
Third quarter.....	\$20.11	\$16.70	50,505
Fourth quarter	\$17.45	\$15.41	59,876
1998			
First quarter.....	\$16.45	\$14.45	55,012
Second quarter.....	\$17.65	\$14.01	47,231
Third quarter.....	\$15.24	\$ 6.95	88,536
Fourth quarter	\$11.15	\$ 6.12	73,078
1999			
First quarter.....	\$10.05	\$ 7.54	33,047
Second quarter (through June 8)	\$11.20	\$10.90	83,146

* Source: Economatica

- (1) The Common Share prices shown above have been adjusted retroactively to reflect stock dividends. Credicorp declared a stock dividend on February 26, 1998 of 0.100 Common Shares for each Common Share held at the close of business on March 31, 1998.
- (2) The Common Shares began trading on the Lima Stock Exchange on October 25, 1995.

On June 8, 1999, the last sale price of the Common Shares on the New York Stock Exchange was US\$11.38 per share. On June 8, 1999, the closing price of the Common Shares on the Lima Stock Exchange was US\$11.50.

(b) The Lima Stock Exchange

(i) Trading

As of December 1998, there were 252 companies listed on the *Bolsa de Valores de Lima* ("Lima Stock Exchange"), Peru's only securities exchange, which was established in 1970. Trading on the Lima Stock Exchange is primarily done on a new electronic trading system that became operational in August 1995. Trading hours are Monday through Friday 8:00 a.m.—9:30 a.m. (pre-market ordering); 9:30 a.m.—1:30 p.m. (trading); and 1:30 p.m.—2:00 p.m. (after market sales). Equity securities may also be traded in an open outcry auction floor session, which was the exclusive method of trading equity securities prior to the introduction of electronic trading. Nearly 100% of transactions currently take place on the electronic system.

Transactions during both open outcry and electronic sessions are executed through brokerage firms and stock brokers on behalf of their clients. Brokers submit their orders in strict accordance with written instructions, following the chronological order of the receipt. The orders specify the type of security ordered or offered, the amounts, and the price of the sale or purchase, as the case may be. In general, share prices are permitted to increase or decrease up to 10% within a single trading day.

The Peruvian stock market capitalization increased 93.3%, 60.5%, 43.4%, 18.3%, and 25.6% in 1993, 1994, 1995, 1996, and 1997, respectively, in U.S. Dollar terms, but decreased 36.5% during 1998. Volume in the Peruvian market is highly concentrated, with the five most actively traded companies representing 42.75% of total traded value during 1998. Total traded volume has increased from US\$1.98 billion in 1993 to US\$4.05 billion in 1994, to US\$5.28 billion in 1995, to US\$8.49 billion in 1996, to US\$12.1 billion in 1997, but decreased to US\$7.7 billion in 1998. Average daily traded volume increased from US\$3.0 million in late 1992 to US\$48.3 million during 1997, then declined to US\$31.3 million for the year ended December 31, 1998. The *Indice General de la Bolsa de Valores de Lima* (the General Index of the Lima Stock Exchange (the "IGBVL")), after increasing, in U.S. Dollar terms, 88.7% in 1993, increased 50.5% in 1994, decreased 17.3% in 1995, increased 2.84% in 1996, and increased 18.86% in 1997, but decreased 33.9% in 1998.

(ii) Market Regulation

As of December 1996, a new Peruvian securities law, Legislative Decree 861 (the "Securities Market Law"), superseded Legislative Decree 755, which had been in effect since November 1991. The rapid development and internationalization of the Peruvian economy brought about the need to modernize Peru's old securities law. The Securities Market Law addresses such matters as:

transparency and disclosure; takeovers and corporate actions; capital market instruments and operations; the securities markets and broker-dealers; and risk rating agencies.

La Comision Nacional Supervisora de Empresas y Valores (“CONASEV”), a public entity responsible to Peru’s Ministry of Economy and Finance (“MEF”), was given additional responsibilities relating to the supervision, regulation, and development of the securities market, while a self regulatory status was established for the Lima Stock Exchange and its member firms. Additionally, a unified system of guarantees and capital requirements was established for the Lima Stock Exchange and its member firms.

CONASEV is governed by a nine-member board appointed by the government. CONASEV has broad regulatory powers, including supervision of all companies incorporated in Peru as well as Peruvian branches or agencies of foreign corporations, the process of admission of members to the Lima Stock Exchange, the authorization for the creation of exchanges, and the approval of the registration of offerings of securities. CONASEV supervises the securities markets and the dissemination of information to investors. It also governs the operations of the Public Registry of Securities and Brokers, regulates mutual funds and their management companies, monitors compliance with accounting regulations by companies under its supervision and the accuracy of financial statements, and registers and supervises auditors providing accounting services to those companies under CONASEV’s supervision. On August 22, 1995, CONASEV approved regulations governing the public offering of securities in Peru by entities organized outside of Peru and, for the first time, authorized foreign companies to be listed on the Lima Stock Exchange. On October 25, 1995, Credicorp became the first non-Peruvian company to list its shares on the Lima Stock Exchange. See “Item 1. Description of Business—(l) Supervision and Regulation.”

Pursuant to the Securities Market Law, a guarantee fund must be maintained by the Lima Stock Exchange and funded by its member firms. The actual contributions to be made by the 29 member firms of the Lima Stock Exchange are based on volume traded over the exchange. At present, the fund has approximately S/13 million, which is 40% below the target set by the regulations based on the exchange’s total traded volume. Regulations allow the fund to reach its target gradually through year 2001. To complement the shortfall, CONASEV has set a temporary contingency fund, presently at S/4.0 million. In addition to the guarantee fund managed by the Lima Stock Exchange, each member firm is required to maintain a guarantee for operations carried outside the exchange in favor of CONASEV. The manner in which such guarantees are generally established is through stand-by letters of credit issued by local banks.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDER

(a) Exchange Controls

Credicorp has been designated as a non-resident for Bermuda exchange control purposes, and as such there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of Common Shares, other than in respect of local Bermuda currency.

As Credicorp relies almost exclusively on dividends from BCP, ASHC, PPS and its other subsidiaries for the payment of dividends to holders of Common Shares and corporate expenses, to the

extent these subsidiaries are restricted by law from paying dividends to Credicorp, Credicorp's ability to pay dividends on the Common Shares will be adversely affected.

In addition, Credicorp presents its financial statements and pays dividends in U.S. Dollars. BCP and PPS prepare their financial statements and pay dividends in Nuevos Soles. The Peruvian currency has been devalued numerous times during the past two decades. If the value of the Nuevo Sol falls relative to the U.S. Dollar between the date of declaration and the date of payment of dividends, the value of such dividends to Credicorp would be adversely affected.

Although substantially all of the customers of BCP, ASHC and PPS are located in Peru, as of December 31, 1998, approximately 86.4% of BCP's loan portfolio, 100% of ASHC's loan portfolio and 95.5% of PPS's premiums were denominated in U.S. Dollars. A devaluation of the Nuevo Sol would therefore have the effect of increasing the cost to the borrower or insured of repaying these loans or making premium payments, in Nuevo Sol terms, which is the currency in which most of the customers of BCP, ASHC and PPS generate revenues. As a result, a devaluation could lead to increased nonperforming loans or unpaid premiums.

Among the economic circumstances that could lead to a devaluation would be a decline in Peruvian foreign reserves to inadequate levels. Although the current level of Peru's foreign reserves compares favorably with those of other Latin American countries, there can be no assurance that Peru will be able to maintain adequate foreign reserves to meet its foreign currency denominated obligations, or that Peru will not devalue its currency should its foreign reserves decline. See "Item 1. Description of Business—(j) Peruvian Government and Economy."

Since March 1991, there have been no exchange controls in Peru and all foreign exchange transactions are based on free market exchange rates. Prior to March 1991, the Peruvian foreign exchange market consisted of several alternative exchange rates. Additionally, during the last two decades, the Peruvian currency has experienced a significant number of large devaluations and Peru has consequently adopted and operated under various exchange rate control practices and exchange rate determination policies, ranging from strict control over exchange rates to market-determination of rates. Current Peruvian regulations on foreign investment allow the foreign holders of equity shares of Peruvian companies to receive and repatriate 100% of the cash dividends distributed by the company. Such investors are allowed to purchase foreign exchange at free market exchange rates through any member of the Peruvian banking system.

The following table sets forth the high and low month-end rates and the average and the end-of-period rates for the sale of Nuevos Soles for Dollars for the period indicated.

<u>Year ended December 31,</u>	<u>High(1)</u>	<u>Low (1)</u>	<u>Average(2)</u>	<u>Period-end(3)</u>
	<i>(Nominal Nuevos Soles per U.S. Dollar)</i>			
1992	1.640	.960	1.244	1.630
1993	2.175	1.705	2.008	2.165
1994	2.250	2.170	2.197	2.175
1995	2.330	2.190	2.257	2.320
1996	2.607	2.350	2.462	2.600
1997	2.730	2.650	2.674	2.730
1998	3.160	2.770	2.945	3.160
<u>1999 (through June 8)</u>	<u>3.440</u>	<u>3.330</u>	<u>3.359</u>	<u>3.344</u>

Source: SBS

- (1) Highest and lowest of the 12 month-end exchange rates for each year based on the offered rate.
- (2) Average of month-end exchange rates based on the offered rate.
- (3) End of period exchange rates based on the offered rate.

The average of the bid and offered exchange market rates published by the SBS for June 8, 1999 was S/3.342 per US\$1.00.

(b) Ownership Restrictions

There are currently no limitations under Bermuda law on the right of non-Bermudans to hold or vote the Common Shares.

ITEM 7. TAXATION

There is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by Credicorp or its shareholders other than shareholders ordinarily resident in Bermuda. Credicorp is not subject to stamp or other similar duty on the issue, transfer or redemption of its shares of common stock. There is currently no comprehensive income tax treaty in effect between the United States and Bermuda addressing withholding taxes on dividends.

Credicorp has obtained from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 an assurance that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital assets, gains or appreciation, or any tax in the nature of estate duty or inheritance tax, such tax shall not until March 28, 2016 be applicable to Credicorp or to its operations, or to the shares, debentures or other obligations of Credicorp except insofar as such tax applied to persons ordinarily resident in Bermuda and holding such shares, debentures or other obligations of Credicorp or any real property or leasehold interests in Bermuda owned by Credicorp.

As an exempted company, Credicorp is liable to pay in Bermuda a registration fee based upon its authorized share capital and the premium on its issued shares of common stock at a rate not exceeding US\$26,500 per annum.

ITEM 8. SELECTED FINANCIAL DATA

(a) Dividends

Pursuant to Bermuda law, dividends are payable out of Credicorp's retained earnings and contributed surplus account provided Credicorp would be able to pay its liabilities as they become due and the realistic value of Credicorp's assets would not be less than the aggregate of its liabilities and issued share capital and share premium accounts after the payment of such dividend. Although there can be no assurance that any dividends will be paid or as to the amount of dividends, if any, to be paid, Credicorp currently intends to declare and pay dividends annually and Credicorp's Board of Directors currently expects to recommend to the shareholders an annual dividend no less than 25% of consolidated net profits. However, the payment of dividends is subject to the discretion of the Board of Directors of Credicorp and will depend upon general business conditions, the financial performance of Credicorp, the availability of dividends from Credicorp's subsidiaries and restrictions on their payment and other factors that Credicorp's Board of Directors may deem relevant.

Credicorp will rely almost exclusively on dividends from its subsidiaries for the payment of dividends to holders of Common Shares and for corporate expenses, and is able to cause its subsidiaries to declare dividends, subject to certain reserve and capital adequacy requirements under applicable banking and insurance regulations. To the extent Credicorp's subsidiaries do not have funds available or are otherwise restricted from paying dividends to Credicorp, Credicorp's ability to pay dividends on the Common Shares will be adversely affected. Currently, there are no restrictions on the ability of BCP, ASHC, PPS, Banco Tequendama or any other Credicorp subsidiary to remit dividends abroad. In addition, BCP and PPS intend to declare and pay dividends in Nuevos Soles and Banco Tequendama intends to declare dividends in Colombian Pesos, whereas Credicorp intends to declare and pay dividends in U.S. Dollars. If the value of the Nuevo Sol or Colombian Peso falls relative to the U.S. Dollar between the date of declaration and the date of payment of dividends, the value of such dividends to Credicorp would be adversely affected. See "Item 6. Exchange Controls and Other Limitations Affecting Security Holders."

The following table shows cash and stock dividends paid by Credicorp in the period indicated:

<u>Year ended December 31,</u>	<u>Number of Shares Entitled to Dividends</u>	<u>Cash Dividends Per Share</u>	<u>Stock Dividends Per Share</u>
1995	60,852,286	0	0
1996	60,852,286	US\$ 0.55	0.175
1997	71,501,521	US\$ 0.50	0.20
1998	85,801,738	US\$ 0.45	0.10

On February 25, 1999, the Board of Directors of Credicorp declared a cash dividend of US\$0.20 per Common Share held at the close of business on April 8, 1999. The cash dividend was distributed on April 30, 1999.

(b) Selected Financial Data

The following table presents summary consolidated financial information for Credicorp at the dates and for the periods indicated. This selected financial data is presented in U.S. Dollars. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Credicorp Consolidated Financial Statements, also presented in U.S. Dollars. The summary consolidated financial data as of December 31, 1994, 1995, and 1996 and for the three years ended December 31, 1996, are derived from the Credicorp Consolidated Financial Statements audited by Coleridge y Asociados, members of Arthur Andersen (Andersen Worldwide Organization). The report of Medina, Zaldívar y Asociados (successor of Coleridge y Asociados) on the Credicorp Consolidated Financial Statements as of December 31, 1996, and for the fiscal year ended December 31, 1996, appears elsewhere in this Annual Report. The summary consolidated financial data as of December 31, 1997 and 1998 and for the two years ended December 31, 1998, are derived from the Credicorp Consolidated Financial Statements audited by Collas Dongo-Soria y Asociados, a member firm of PricewaterhouseCoopers, independent accountants. The report of Collas Dongo-Soria y Asociados on the Credicorp Consolidated Financial Statements as of and for the two years ended December 31, 1998, appears elsewhere in this Annual Report. Because of the size of BCP in relation to Credicorp, for consolidation purposes, BCP has been considered as the predecessor entity, and the historical consolidated financial statements of Credicorp prior to the October 20, 1995 Exchange Offer are those

of BCP adjusted to conform to IAS and translated into U.S. Dollars in accordance with IAS, as described in Note 2 to the Credicorp Consolidated Financial Statements. Those financial statements of BCP were prepared in accordance with Peruvian GAAP and applicable SBS rules as applied to banks and, for purposes of preparing the summary consolidated financial data as of December 31, 1994, and for the year ended December 31, 1994, adjusted to conform to IAS in the manner set forth below. The summary consolidated financial information presented below and the Credicorp Consolidated Financial Statements are prepared and presented in accordance with IAS, which differ in certain respects from U.S. GAAP. See Note 20 to the Credicorp Consolidated Financial Statements, which provides a description of the principal differences between IAS and U.S. GAAP, as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp's net income and shareholders' equity.

BCP's historical financial statements included, in accordance with Peruvian GAAP, the results of exposure to inflation, which seek to account, as of the date of the most recent balance sheet presented, for the effects of inflation by adjusting the value of a company's non-monetary assets and liabilities by a factor corresponding to the inflation rate as measured by the Peruvian Wholesale Price Index. Monetary assets and liabilities are not so adjusted. The net result of the adjustment is reflected in the "Result of exposure to inflation" line item of the income statement.

IAS requires a similar adjustment for hyperinflationary economies. In accordance with IAS, when the cumulative three-year inflation rate is less than 100% an economy is no longer considered hyperinflationary, and the use of inflation-adjusted financial reporting is no longer appropriate, whereas Peruvian GAAP continues to require the reporting of annual inflation-adjusted financial statements. In 1998, the accumulated inflation rate in Peru for the preceding three years was lower than 100% and, consequently, if BCP was to report in accordance with IAS, the financial statement adjustment under Peruvian GAAP required to reflect the variation of the purchasing power of the Peruvian currency during 1998 would not be made. Accordingly, the historical Nuevos Soles financial statements of BCP (i) have been adjusted for inflation for all periods prior to 1995 using the Wholesale Price Index to restate Nuevo Sol amounts in constant December 31, 1994 Nuevos Soles and (ii) such Nuevo Sol amounts have been translated into U.S. Dollars by using (A) with respect to monetary assets and liabilities, the free market exchange rate in effect at the balance sheet date, (B) with respect to non-monetary assets (including their depreciation or amortization) and equity accounts, the free market exchange rate at the later of December 31, 1994 and the original date of the transactions, and (C) with respect to income and expense accounts (except for those related to non-monetary assets), the average exchange rates of the period in which they were generated. The result of the financial statement translation into U.S. Dollars is included in Credicorp's income statement. The December 31, 1994 Nuevo Sol/U.S. Dollar exchange rate was S/2.19 per US\$1.00. The effect of inflation accounting under IAS has not been reversed in the reconciliation to U.S. GAAP. See Note 20 to the Credicorp Consolidated Financial Statements.

ASHC and PPS have been treated as significant acquisitions by BCP and accounted for under the purchase method of accounting based on their respective fair values as of October 31, 1995. The financial information presented below to the right of the double bar reflects the results of operations and the financial condition of BCP for 1995 and of PPS and ASHC for the last two months of 1995 following the Exchange Offer. The financial information presented below to the left of the double bar does not reflect the results of operations or the financial condition of ASHC or PPS and, as a result, is not directly comparable with the information presented to the right of the double bar.

	Year ended December 31,				
	1994	1995	1996	1997	1998
	(U.S. Dollars in thousands, except percentages, ratios, and per common share data)				
INCOME STATEMENT DATA:					
IAS:					
Interest income	US\$315,170	US\$449,680	US\$654,563	US\$793,057	US\$865,765
Interest expense	152,411	210,534	335,617	402,556	469,244
Net interest income	162,759	239,146	318,946	390,501	396,521
Provision for loan losses (1)(2)	19,211	29,653	57,835	89,665	170,560
Net interest income after provision for loan Losses	143,548	209,493	261,111	300,836	225,961
Fees and commissions from banking services	93,113	101,463	123,224	145,867	143,895
Net gains from sales of securities	7,942	6,120	12,202	25,447	683
Net gains on foreign exchange transactions	24,359	26,546	23,661	27,843	28,889
Net premiums earned	—	11,689	78,639	104,668	119,195
Other income	13,430	23,165	38,402	43,333	51,358
Claims on insurance activities	—	11,269	65,944	77,062	88,116
Operating expenses	212,129	243,502	315,392	402,017	430,889
Income before result from exposure to inflation and translation result, income tax, and minority interest	70,263	123,705	155,903	168,915	50,976
Result of exposure to inflation and translation result	(5,207)	4,667	15,804	(2,977)	25,232
Income tax	(18,385)	(30,672)	(42,564)	(43,213)	(25,589)
Minority interest	—	(9,650)	(12,994)	(12,665)	(8,523)
Net income	46,671	88,050	116,149	110,060	42,096
Net income per Common Share (3)	0.494	0.933	1.231	1.166	0.446
U.S. GAAP:					
Net income:	47,972	85,062	128,859	104,244	35,323
Net income per Common Share (3)	0.508	0.901	1.365	1.104	0.374
BALANCE SHEET DATA:					
IAS:					
Total assets	3,340,450	5,096,469	6,247,457	7,803,457	7,952,475
Total loans (4)	1,979,239	3,040,169	3,850,716	4,573,781	5,104,450
Reserves for loan losses (1)	106,678	119,609	160,601	209,810	270,082
Total deposits	2,647,407	3,667,516	4,435,087	5,432,253	5,484,042
Shareholders' equity	310,317	572,041	664,009	743,404	752,387
U.S. GAAP:					
Shareholders' equity	314,650	566,063	665,512	749,311	728,967
SELECTED RATIOS:					
IAS:					
Net interest margin (5)	6.70%	6.99%	6.42%	6.33%	6.10%
Return on average total assets (6)	1.59	2.09	2.05	1.57	0.53
Return on average shareholders' equity (7)	15.94	19.96	18.79	15.64	5.63
Operating expenses as a percentage of net interest and non-interest income (8)	70.33	59.66	53.00	54.50	58.19
Operating expenses as a percentage of average assets	7.21	5.77	5.56	5.72	5.47
Shareholders' equity as a percentage of period end total Assets	9.29	11.22	10.63	9.53	9.46
Regulatory capital as a percentage of risk-weighted assets (9)	8.93	13.76	11.19	11.06	10.86
Total past due loan amounts as a percentage of total Loans (10)	3.45	2.42	3.23	3.96	6.00
Reserve for loan losses as a percentage of total loans	5.39	3.93	4.17	4.59	5.29
Reserves of loan losses as a percentage of total loans and other contingent credits (11)	3.92	3.03	3.23	3.70	4.37
Reserves for loan losses as a percentage of total past due loans (12)	156.14	162.68	129.02	115.76	88.21
Reserves for loan losses as a percentage of substandard Loans (13)	52.10	55.97	52.89	43.97	41.86

- (1) Provision for loan losses and reserve for loan losses include provisions and reserves with respect to total loans and other credits. See Notes 6 and 15 to the Credicorp Consolidated Financial Statements for information on the contingent liabilities of Credicorp.
- (2) Net of reversals of reserves from prior years, transfers and charge-offs, which amounted to US\$19.2 million in 1994, US\$23.1 million in 1995, US\$14.0 million in 1996, US\$23.1 million in 1997 and US\$9.6 million in 1998, respectively. See Note 6(e) to the Credicorp Consolidated Financial Statements for additional detail.

- (3) As of December 31, 1998, Credicorp had issued 94.4 million Common Shares of which 13.4 million treasury shares are held by BCP, ASHC and PPS. Per Common Share data presented assumes 94.4 million Common Shares outstanding as of December 31, 1998, 1997, 1996 and 1995, and 45.3 million Common Shares outstanding in periods prior to 1995. Credicorp believes that this presentation is appropriate since all share issuances by BCP prior to the Exchange Offer were in the form of share dividends and capitalization of inflation adjustments. On February 26, 1998, Credicorp declared a stock dividend increasing the number of Common Shares issued from 85.8 million to 94.4 million. See “—(a) Dividends.”
- (4) Net of unearned interest, but prior to reserve for loan losses. In addition to loans outstanding, Credicorp had contingent credits of US\$747.6 million, US\$906.6 million, US\$1,119.5 million, US\$1,091.3 million and US\$1,072.9 million at December 31, 1994, 1995, 1996, 1997 and 1998, respectively. See Note 15 to the Credicorp Consolidated Financial Statements.
- (5) Net interest income as a percentage of average interest-earning assets, computed as the average of period-beginning and period-ending balances, on a quarterly basis since 1995.
- (6) Net income as a percentage of average total assets, computed as the average of period-beginning and period-ending balances.
- (7) Net income as a percentage of average shareholders’ equity, computed as the average of period-beginning and period-ending balances.
- (8) Total operating expenses as a percentage of the sum of net interest income and noninterest income.
- (9) BCP’s regulatory capital calculated in accordance with SBS requirements. In 1994, ASB’s risk-weighted assets were calculated using risk-based guidelines adopted by the Basel Accord as implemented in the Cayman Islands. See “Item 9. Management’s Discussion and Analysis of Financial Condition and Result of Operation—(a) Historical Discussion and Analysis—Financial Condition—Regulatory Capital.”
- (10) BCP considers loans past due after no more than 15 days, except for installment loans, which include mortgage loans but excludes consumer loans, which are considered past due after 90 days. ASHC considers past due all overdue loans except for consumer loans, which are considered past due when the scheduled principal and/or interest payments are overdue for more than 90 days. See “Item 1. Description of Business—(n) Selected Statistical Information—Loan Portfolio-Classification of the Loan Portfolio Based on the Borrower’s Payment Performance.”
- (11) Other contingent credits primarily consist of guarantees and letters of credit. See Note 15 to the Credicorp Consolidated Financial Statements.
- (12) Reserve for loan losses, as a percentage of all past due loans, with no reduction for collateral securing such loans. Reserve for loan losses includes reserves with respect to total loans and other credits. See Note 1 above.
- (13) Reserve for loan losses, as a percentage of loans classified in categories C, D or E.

ITEM 9. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(a) Historical Discussion and Analysis

The following discussion is based upon information contained in the Credicorp Consolidated Financial Statements and should be read in conjunction therewith. The Credicorp Consolidated Financial Statements have been prepared in accordance with IAS, which differ in certain significant respects from U.S. GAAP. See Note 20 to the Credicorp Consolidated Financial Statements, which provides a description of the principal differences between IAS and U.S. GAAP as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp’s net income and shareholders’ equity. The discussion in this section regarding interest rates is based on nominal interest rates. For a comparison of nominal interest rates with real interest rates, see “Item 1. Description of Business—(n) Selected Statistical Information—Average Balance Sheets and Income from Interest-Earning Assets—Real Average Interest Rates.”

Because of the relative size of BCP compared to Credicorp, for consolidation purposes, BCP has been considered as the predecessor entity and the historical consolidated financial statements of Credicorp prior to the consummation of the Exchange Offer on October 20, 1995 are those of BCP. ASHC and PPS have been treated as significant acquisitions by BCP and accounted for under the purchase method of accounting based on their respective fair values as of October 31, 1995. The financial information and discussion and analysis presented below for 1996, 1997 and 1998 reflect the financial position and results of operations for the twelve months of 1996, 1997 and 1998 of Credicorp’s subsidiaries. See “Item 8. Selected Financial Data—(b) Selected Financial Data.”

At December 31, 1998 approximately 82.9% of Credicorp’s deposits and 89.1% of its loans were denominated in foreign currencies, reflecting the historic lack of confidence in the Peruvian

currency as a result of high inflation rates in prior years. With the reduction in the rate of inflation, Credicorp has begun to attract more Nuevo Sol-denominated deposits and to offer more Nuevo Sol-denominated loans. Nevertheless, Credicorp expects the majority of its deposits and loans to continue to be denominated in foreign currencies.

Results of Operations for the Three Years Ended December 31, 1998

The following table sets forth, for the years 1996, 1997 and 1998, the principal components of Credicorp's net income:

	Year ended December 31,		
	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>		
Interest income	US\$654,563	US\$793,057	US\$865,765
Interest expense	335,617	402,556	469,244
Net interest income	US\$318,946	US\$390,501	US\$396,521
Provision for loan losses.....	57,835	89,665	170,560
Net interest income after Provisions	US\$261,111	US\$300,836	US\$225,961
Noninterest income	276,128	347,158	344,020
Claims on insurance activities	65,944	77,062	88,116
Operating expenses	315,392	402,017	430,889
Income before translation result, income tax and minority interest.....	US\$155,903	US\$168,915	US\$50,976
Translation result (loss) gain	US\$ 15,804	US\$ (2,977)	US\$25,232
Income tax	(42,564)	(43,213)	(25,589)
Minority interest	(12,994)	(12,665)	(8,523)
Net income	US\$116,149	US\$110,060	US\$42,096

Credicorp's net income decreased 61.8% from 1997 to 1998 following a decrease of 5.2% from 1996 to 1997. Decreased Net Income in 1998 was primarily due to higher loan loss provisions. Net income decreased in 1997 principally due to lower growth in the volume of operations, which led to decreased growth in net interest income and non-interest income, and to increased loan loss provision expense.

Net Interest Income

Net interest income represents the difference between interest income on interest-earning assets and the interest paid on interest bearing liabilities. The following table sets forth the components of net interest income:

	Year ended December 31,		
	1996	1997	1998
	(U.S. Dollars in thousands)		
Interest income:			
Loans	US\$562,624	US\$668,953	US\$719,315
Deposits.....	24,998	20,311	31,736
Deposits in Central Bank	41,677	44,244	46,457
Investment Securities	22,176	50,895	54,899
Dividends	<u>3,088</u>	<u>8,654</u>	<u>13,358</u>
Total interest income	US\$654,563	US\$793,057	US\$865,765
Interest expense:			
Saving deposits.....	US\$ 79,297	US\$ 83,144	US\$77,366
Time Deposits.....	171,925	225,838	280,421
Borrowing from other financial institutions ...	71,084	75,089	92,197
Demand deposits.....	<u>13,311</u>	<u>18,485</u>	<u>19,260</u>
Total interest expense	US\$335,617	US\$402,556	US\$469,244
Net interest income	<u>US\$318,946</u>	<u>US\$390,501</u>	<u>US\$396,521</u>

(1) Pursuant to IAS, dividends earned on equity investments are reflected as interest income.

Credicorp's net interest income increased 1.5% in 1998 compared to 1997, which in turn represented a 22.4% increase compared to 1996.

Interest Income. Interest income increased 9.2% in 1998 compared to 1997, which in turn represented a 21.2% increase compared to 1996. The increase in interest income during 1998 was lower than in 1997 due principally to slower growth in loan volume with a slight decrease in net interest margins. The growth in interest income in 1997 was principally due to increased interest-earning assets and a decrease in the nominal interest rate for interest-earning assets from 13.2% in 1996 to 12.9% in 1997. In 1998 BCP's Corporate loan volume grew 15.8%, Middle Market grew 11.0%, while Retail grew 6.1%, principally due to the decrease by 8.0% of Small Business segment loans. Such changes reflect the decision of Credicorp's management to tighten credit requirements in the Middle Market and Small Businesses, and increase lending in the Corporate sector. See "Item 1. Description of Business—(n) Selected Statistical Information." However, average nominal interest rates received by Credicorp on its loan portfolio decreased to 14.9% in 1998 from 15.9% in 1997 and 16.1% in 1996. With respect to foreign currency-denominated loans, the average nominal interest rate was 13.9% in 1996 remained almost unchanged at 13.8% in 1997, but decreased to 12.9% in 1998 and, with respect to Nuevo Sol-denominated loans, decreased from 28.6% in 1996 to 28.1% in 1997, but increased to 29.2% in 1998.

The quarterly average balance of Credicorp's foreign currency-denominated loan portfolio increased 20.9% to US\$4,240.5 million in 1998 from US\$3,567.9 million in 1997, which in turn represented a 20.9% increase from US\$2,951.0 million in 1996. The average balance of Credicorp's Nuevo Sol-denominated loan portfolio decreased 5.4% to US\$596.0 million in 1998 from US\$629.9 million in 1997, while it represented a 17.6% increase from US\$535.8 million in 1996. The growth in

foreign currency-denominated loans compared to declining Nuevo Sol-denominated loans in 1998 was due the strict monetary policy applied by the Central Bank following the international financial crisis which raised Nuevos Soles interest rates. The higher percentage growth in foreign currency-denominated loans relative to Nuevo Sol-denominated loans in 1997 was due to lower demand for Nuevo Sol-denominated loans following higher credit quality requirements by Credicorp's management specially in the Middle Market, Small Business and Consumer segments. Credicorp expects Nuevo Sol-denominated loans to resume growth at a faster rate than foreign currency-denominated loans as it focuses on expanding its Retail Banking business. See "Item 1. Description of Business—(b) Commercial Banking—(ii) Retail Banking" and "Item 1. Description of Business—(n) Selected Statistical Information."

The substantial increase in the loan portfolio could be accompanied by increased risk, not only due to the speed and magnitude of the increase, but also to the shift to middle market and consumer lending, sectors in which Credicorp lacks the experience that it has in its more traditional lending activities, particularly corporate lending. Given the changing composition of Credicorp's loan portfolio, Credicorp's historical loss experience may not be indicative of its future loan loss experience.

Interest expense. Interest expense increased 16.6% in 1998 compared to 1997, which in turn represented a 19.9% increase compared to 1996. The increase in each period was due principally to an increase in the volume of deposits, the effects of which were compounded by an increase in the nominal interest rates paid on total deposits in 1997 and 1998. Interest rates paid, with respect to foreign currency-denominated deposits, increased from 6.0% in 1996 to 6.6% in 1997 and to 7.0% in 1998 and, with respect to Nuevo Sol-denominated deposits, increased from 8.8% in 1996 to 10.2% in 1997, but decreased to 8.4% in 1998. The increases in the average nominal interest rate paid on deposits in 1997 and 1998 resulted primarily from increased competition and volatility of foreign capital flows, specially in 1998, in the Peruvian market. See "Item 1. Description of Business—(i) Competition" and "Item 1. Description of Business—(n) Selected Statistical Information."

Credicorp's average foreign currency-denominated deposits increased 11.2% to US\$4,252.6 million in 1998 from US\$3,823.4 million in 1997, which in turn represented a 13.2% increase from US\$3,376.8 million in 1996. Credicorp's average Nuevo Sol-denominated deposits increased 23.9% to US\$940.8 million in 1998 from US\$759.1 million in 1997, which in turn represented a 6.2% increase from US\$714.8 million in 1996. See "Item 1. Description of Business—(n) Selected Statistical Information."

Net interest margin. Credicorp's net interest margin (net interest income divided by average interest-earning assets) decreased from 6.4% in 1996 to 6.3% in 1997, and further to 5.7% in 1998. The decrease in 1998 is the result of an increase in the average nominal rate paid by Credicorp on its foreign currency interest-bearing liabilities compounded by a decrease in the average nominal rate received by Credicorp on its interest-earning assets, principally due to decreased rates on foreign currency-denominated loans. The decrease in 1997 was due to the increase in the average nominal rate paid by Credicorp on its interest-bearing liabilities which was compounded by the decrease in the average nominal rate received by Credicorp on its interest-earning assets. The decrease in the average nominal rate received by Credicorp was a consequence of increased competition for deposits, lower loan demand and decreased availability of Nuevo Sol sources of funding. See "Item 1. Description of Business—(n) Selected Statistical Information."

Provision for Loan Losses

Credicorp classifies by risk category all of its loans and other credits. Credicorp establishes specific loan loss reserves based on the classification of particular loans (see “—(c) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio”), as well as generic loss reserves, which until June 30, 1995 were encouraged, but not required, by applicable regulations. As of June 30, 1995, SBS regulations required generic reserves of between 1% to 3% of certain loans. Law 26702, issued in December 1996, and its applicable regulations issued in August 1997, established new overall specific provision requirements and a generic loan loss provision of up to 1% of the bank’s total loan and credit portfolio classified as A (Normal). The new required provisions have to be established incrementally according to a schedule through June 2000. See “Item 1. Description of Business—(n) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio.” Credicorp’s policy is to maintain generic reserves of not more than 2% of BCP’s total credit exposure (loans plus contingent liabilities), net of specific reserves and certain readily marketable collateral, provided that the general reserves not be less than 5% of total consumer and credit card loans. Credicorp’s policy is also to maintain general reserves with respect to ASHC in amounts it deems appropriate. See “Item 1. Description of Business—(n) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio.” Credicorp does not anticipate that the expansion of its loan portfolio or the consolidation of the activities of its subsidiaries will necessitate a change in its generic reserve policy.

The following table sets forth the movements in Credicorp’s reserve for loan losses:

	Year Ended December 31,				
	1994	1995	1996	1997	1998
Reserves for loan losses at the beginning of the year.....	US\$101,456	US\$106,678	US\$119,609	US\$160,601	US\$209,810
Additional provisions.....	38,386	52,812	71,871	112,791	180,192
Acquisitions	--	--	--	--	11,236
Reversals of previous provisions (net) and transfers	19,175	(23,159)	(14,036)	(23,126)	(9,632)
Specific reserves.....	(19,175)	(23,159)	(14,036)	(23,105)	(8,252)
Generic reserves.....	--	--	--	(21)	(1,380)
Write-offs.....	(5,385)	(13,833)	(16,291)	(39,780)	(119,994)
Monetary Correction and Other...	<u>(8,604)</u>	<u>(2,889)</u>	<u>(552)</u>	<u>(676)</u>	<u>(1,530)</u>
Reserves for loan losses at the End of the year	<u>US\$106,678</u>	<u>US\$119,609</u>	<u>US\$160,601</u>	<u>US\$209,810</u>	<u>US\$270,082</u>

Provisions for loan losses, charged against income net of recoveries, increased 90.2% in 1998 compared to 1997, and 55.0% in 1997 compared to 1996. During 1997, the increase in the provisions was related principally to continued deterioration in the credit quality in the Middle and Small Business segments resulting from decreased domestic demand caused by the economic slowdown induced by the Peruvian government in 1996 through conservative management of fiscal expenditures. The effects of the increase in specific provisions were substantially offset by an increase in write-offs of specific provisions in 1997 compared to 1996. The increase in loans charged-off was primarily attributable to the removal of loans that were fully provisioned and considered unrecoverable pursuant to new loan provision regulations which decreased the amount time loans were required to remain fully provisioned before being charged-off.

Increased provisions in 1998 was principally due to decreased economic activity brought by the effects of the “El Niño” weather phenomenon, which was felt in the first part of the year, and to the

liquidity crisis caused by volatility in the international capital markets. The Middle Market and Small Business segments continued to require most of the provisions made during 1998.

Generic provisions, which totaled US\$52.2 million as of December 31, 1996, decreased to US\$26.5 million at December 31, 1997, but grew to US\$28.0 million at December 31, 1998. The decrease in 1997 was a result of the reclassification of US\$26.8 million to specific provisions, of which US\$10.1 million were reserves for Potential Problem (B) risk category loans, which were reclassified as a result of the new loan provision regulations.

Reserves as a percentage of past due loans decreased to 88.2% at year end 1998 from 115.8% at year end 1997, and reserves as a percentage of substandard loans decreased to 41.9% at year end 1998 from 44.0% at year end 1997. Given the changing composition of Credicorp's loan portfolio, Credicorp's historical loss experience may not be indicative of its future loan loss experience.

Noninterest income

The following table reflects the components of Credicorp's noninterest income:

	Year ended December 31,		
	<u>1996</u>	<u>1997</u>	<u>1998</u>
	<i>(U.S. Dollars in thousands)</i>		
Fees and Commissions from banking services ...	US\$123,224	US\$145,867	US\$143,895
Net gains from sales of securities	12,202	25,447	683
Net gains on foreign exchange transactions	23,661	27,843	28,889
Net premiums earned	78,639	104,668	119,195
Other income	38,402	43,333	51,358
Total non-interest income	<u>US\$276,128</u>	<u>US\$347,158</u>	<u>US\$344,020</u>

Credicorp's noninterest income decreased 0.9% in 1998 compared to 1997, after having increased 25.7% from 1996. Excluding the increase attributable to the inclusion of net premiums earned, noninterest income decreased 7.3% in 1998 compared with 1997 and increased 22.8% in 1997 compared to 1996. The decrease in 1998 is due principally to almost no revenue generated from securities transactions, which declined 97.3%, in addition to fees and commissions which also decreased 1.4%. The increase in 1997 is due principally to increased fees and commissions, which increased 18.4% in 1997 compared to 1996. The principal sources of fee and commission income are account maintenance charges, credit card fees, collection fees, fund transfer fees and fees relating to foreign trade operations. The increase in 1997 is due to strong increases principally in account maintenance and funds transfer fees, collections, and brokerage fees, which reflect changes BCP has made beginning in 1996 in the fee structure for various services.

Net gains from the sales of securities, principally equities, decreased in 1998 to US\$0.7 million from US\$25.4 million in 1997, which in turn increased from US\$12.2 million in 1996. Regulations prior to the new banking law, Law 26702, required banks to establish a reserve equal to the market value of equity securities held for more than one year. As a result, BCP generally did not hold any equity securities for longer than one year. Decreased revenue in 1998 reflects the poor performance of the Lima Stock Exchange in that year, evidenced by a 25.5% decline in the IGBVL as compared to a 25% increase in 1997 and 15% in 1996, and losses, principally in fixed income instruments, in ASB's securities portfolio brought about by the international financial crisis. The allowance for unrealized losses for the investment portfolio increased from US\$25,000 at December 1997 to US\$7.4 million at

December 1998, in addition to an approximately US\$7 million write-down of ASB's portfolio performed through the application of prior period other risk provisions. See "Item 1. Description of Business-(n) Selected Statistical Information (ii) Investment Portfolio."

Credicorp's gains from foreign exchange transactions increased 3.8% in 1998 compared to 1997, after increasing 17.7% in 1997. Gains from foreign exchange transactions do not arise from proprietary trading on the part of Credicorp. Lower growth in 1998 compared to 1997 was principally due to decreased buy/sell spreads which were partially offset by increased volumes. The increase in 1997 was due to increased volumes in the foreign exchange markets resulting from growth in international trade and foreign direct investment in Peru, as well as investment transactions on the Lima Stock Exchange. The buy/sell spread on U.S. Dollars decreased from 0.29% in 1996 to 0.23% in 1997 and further to 0.19% in 1998, reflecting increased stability and competition in the foreign exchange markets.

Other income increased 18.5% in 1998 compared to 1997, after increasing 12.8% in 1997. Other income principally consists of customer service charges and certain nonrecurring income items. In 1998 the increase is principally due to the reversal of excess provisions for taxes registered in prior years. The increase in other income for 1997 was principally due to increased revenue from customer service charges and from the sale of assets, which was partially offset by lower fees from investment banking services.

Net premiums increased 13.9% in 1998 compared to 1997, after growth of 33.1% in 1997. Growth in 1998 was principally due to a 48.8% increase in the life insurance line and 18.1% in health and medical assistance insurance, which were partly offset by 1.7% lower automobile premiums, and a 27.5% decline in marine hull insurance. The increase in 1997 was due principally to growth in the pension fund benefits insurance line, which grew 57.9%, and the fire insurance line, which grew 32.6%. In addition, automobile insurance grew 18.2% and health and medical assistance insurance grew 14.9%. See "Item 1. Description of Business—(d) Insurance."

Claims on Insurance Activities

During 1998, claims on insurance activities increased 14.3%. This was a result of an increase in the net loss ratio for the property and fire insurance line, from 42.6% to 133.1%, and for the marine hull business line from 108.2% to 128.9%, principally related to casualties brought by damages caused by the "El Niño" weather phenomenon. See "Item 1. Description of Business—(d) Insurance."

Operating Expenses

The following table reflects the components of Credicorp's operating expenses:

	Year ended December 31,		
	1996	1997	1998
	<i>(U.S. Dollars in thousands)</i>		
Salaries and employee benefits	US\$153,876	US\$188,517	US\$181,524
General administrative	119,814	152,363	160,212
Depreciation and amortization	25,074	30,482	38,619
Other	16,628	30,655	50,534
Total operating expenses	<u>US\$315,392</u>	<u>US\$402,017</u>	<u>US\$430,889</u>

Credicorp's operating expenses (aside from provisions for loan losses) increased 7.2% in 1998 compared to 1997, which in turn represented a 27.5% increase compared to 1996. In 1998 the Other expense concept had the largest increase, due principally to higher provisions and costs related to assets received in lieu of loan repayment, which grew from US\$4.5 million in 1997 to US\$17.1 million in 1998. The largest component of the increase in operating expense in 1997 is attributable to salaries and employee benefits, which increased 22.5% to US\$188.5 million in 1997 from US\$153.9 million in 1996. The increase in salaries and benefits in 1997 compared to 1996 is partly due to a US\$12.2 million extraordinary charge for the retirement of personnel within a cost reduction program conducted by BCP, and to US\$12.8 million personnel expense incurred by Banco Tequendama, which was acquired in 1997. Considering only BCP, the number of personnel increased to 7,510 in 1998 from 6,210 in 1997, which decreased, after the application of the cost reduction program, from 6,932 in 1996. In 1998 BCP increased teller positions in existing offices as part of a program to improve service quality. In 1998 PPS increased approximately 200 salespeople in its life insurance subsidiary.

Credicorp's general and administrative expenses (which include taxes other than income taxes) increased 5.2% in 1998 compared to 1997 and 27.2% in 1997 compared to 1996. The increase in each period generally reflects the costs associated with the expansion of fee generating services and other noninterest income. Depreciation and amortization expense increased 26.7% in 1998 compared to 1997 and 21.6% in 1997 compared to 1996 as the result of increased investments (particularly in information systems) resulting from the increased volume of transactions and loans experienced in those periods.

Other expenses increased 64.8% in 1998 compared to 1997 after growing 84.4% in 1997 compared to 1996. Other expenses consist primarily of certain contingency provisions and other miscellaneous items. The increases were principally related to increased provisions and write-down costs for assets received in lieu of loan payments and to contingency provisions to complement insurance coverage.

Translation Result

Translation result has been included in the Credicorp Consolidated Financial Statements since December 31, 1994. Since Credicorp's financial statements are kept in U.S. Dollars, the functional currency, the translation result reflects exposure to devaluation of net monetary positions in other currencies. In 1998 Credicorp had a US\$25.2 million translation gain, compared to a US\$3.0 million translation loss the year before, principally due to increased devaluation in 1998 of the Nuevo Sol, while 1997 was affected by a low Nuevo Sol devaluation and by the inclusion of Banco Tequendama which had a US \$5.2 million translation loss.

Income Taxes

Credicorp is not subject to income taxes or taxes on capital gains, capital transfers or equity or estates duty under Bermuda law; however, certain of its subsidiaries are subject to income tax depending on the legislation applicable to the jurisdictions in which the subsidiaries activities generating income take place.

Credicorp's Peruvian subsidiaries, including BCP, are subject to corporate taxation on income under the Peruvian tax law. The statutory income tax rate payable in Peru is 30% of taxable income, which includes the result of exposure to inflation. Starting in 1992, Peruvian companies were also subject to an alternative minimum assets tax of 1.5%, which was repealed in May 1997. For fiscal years 1997 and 1998, companies are subject to an extraordinary tax on net assets of 0.5%, and for 1999 of 0.2%. In the case of banks, both such assets taxes are calculated based on 50% of assets (net of depreciation, reserve for loan losses and common stock investments in Peruvian corporations) as of December 31 of the tax year in question. Beginning in 1994, amounts required to be held by BCP in the Central Bank as reserve deposits may be deducted from the asset calculation for determination of the alternative minimum tax and the extraordinary tax. Both taxes are payable even if an entity incurs a loss in the tax year in question. Peruvian tax legislation is applicable to legal entities established in Peru, and on an individual (not consolidated) basis. Credicorp's non-Peruvian subsidiaries are not subject to taxation in Peru and their assets are not included in the calculation of the Peruvian extraordinary tax on net assets.

ASHC is not subject to taxation in the Cayman Islands or Panama. In 1996, however, ASHC incurred a US\$101,000 tax expense in relation to a subsidiary ceasing operations. ASHC's operations in the United States are subject to U.S. federal and Florida state income taxation. For purposes of determining United States taxable income, certain tax deductible items are taken into consideration, and for 1996, 1997 and 1998 no net taxable income was generated. As of December 31, 1998, ASHC's Miami agency had United States federal tax loss carryforwards to reduce future taxable income of approximately US\$11.2 million (US\$11.1 million as of December 31, 1997).

Prior to 1995, there was no corporate income tax in Bolivia. Although Bolivia adopted an income tax regime starting in 1995, due to BCB's ability to offset taxes paid other than income taxes from any income tax liability, no Bolivian income taxes have been payable. Banco Tequendama is subject to income tax in Colombia at the statutory rate of 35%. Banco Capital is subject to income tax in El Salvador at the statutory rate of 25%.

Income taxes paid by Credicorp decreased 40.8% to US\$25.6 million in 1998 from US\$43.2 million in 1997, which in turn represented a 1.5% increase from US\$42.6 million in 1996, reflecting decreases in Credicorp's taxable income and asset base. Since 1994, Credicorp has paid the Peruvian income tax at the statutory rate. The effective tax rates in 1997 and 1998 were 28.2% and 37.8%, respectively.

(b) Financial Condition

Total Assets

At December 31, 1998, Credicorp had total assets of US\$7,952.5 million, a 1.9% increase over total assets of US\$7,803.5 million at December 31, 1997, principally due to an 11.6% increase in total loans which was partly offset by lower holdings of liquid assets. From December 31, 1997 through December 31, 1998, the Peruvian financial system declined 3.6% in terms of deposits, but increased

6.8% in terms of loans, while GDP grew 0.7%. Although no assurance can be given, Credicorp expects its total assets to grow in the following years at a faster rate than GDP because the hyperinflation in prior years, particularly in 1990, had resulted in extremely low liquidity in the Peruvian economy. The ratio of financial intermediation, as measured by the sum of currency in circulation, bank deposits and other bank obligations to the public, divided by GDP, was reduced to 5.2% in 1990 and, although this ratio reached approximately 21% in 1998, it is still below the ratio of 26.7% that was reached in the early 1970s. Nevertheless, Credicorp expects the rate of growth in total assets to decline from the unusually high levels experienced in the last three years.

The substantial increase in the loan portfolio could be accompanied by increased risk, not only due to the speed and magnitude of the increase, but also to the shift to middle market and consumer lending, with respect to which sectors Credicorp lacks the experience that it has in its more traditional lending activities, particularly corporate lending. Given the changing composition of Credicorp's loan portfolio, Credicorp's historical loss experience may not be indicative of its future loan loss-experience.

At December 31, 1998, Credicorp's total loans equaled US\$5,104.5 million, which represented 64.2% of total assets. Net of reserves for loan losses, total loans equaled US\$4,834.4 million. At December 31, 1997, Credicorp's total loans equaled US\$4,573.8 million, which represented 58.6% of total assets, and net of reserves for loan losses, total loans equaled US\$4,364.0 million. Credicorp's total loans grew from December 31, 1997 to December 31, 1998 by 11.6%, and net of loan loss reserves, total loans grew 10.8% in the same period for the reasons specified in the foregoing paragraph.

Credicorp's deposits with the Central Bank decreased 26.7% between December 31, 1998 and December 31, 1997, with balances of US\$895.7 million and US\$1,135.0 million as of such dates, respectively. This decrease is partly due to reduced reserve requirements instituted by the Central Bank during 1998. Credicorp's securities holdings (which include marketable securities and investments) decreased to US\$614.3 million at December 31, 1998 from US\$810.5 million at December 31, 1997. During 1998, the marketable securities portfolio decreased 39.2% to US\$342.3 million principally due to decreased investments in bond and debt instruments by ASHC and in Peruvian Central bank certificates by BCP. The available for sale securities portfolio increased 9.8% to US\$272.0 million.

Total Liabilities

At December 31, 1998, Credicorp had total liabilities of US\$7,200.1 million, a 2.0% increase over total liabilities of US\$7,060.1 million at December 31, 1997. At December 31, 1998, Credicorp had total deposits of US\$5,484.0 million, a 1.0% increase over total deposits of US\$5,432.3 million at December 31, 1997. Credicorp believes that its extensive branch network and reputation in the Peruvian market have allowed it to compete effectively for new deposits and to attract stable, low cost savings deposits. Growth during 1998 was 13.8% in time deposits, while demand deposits and savings deposits decreased 14.2% and 7.3%, respectively. At December 31, 1998, Credicorp had 42.2% of the total savings deposits in the Peruvian banking system and 28.9% of total deposits, both of which are the highest of any Peruvian bank. An important characteristic of Credicorp's deposit base is that, as of December 31, 1998, it included 49.2% of the entire Peruvian banking system's CTS deposits. Credicorp believes that it traditionally has attracted a high percentage of the savings and CTS deposit market because of its reputation as a sound institution and its extensive branch network. Credicorp's funding strategy has been structured around maintaining a diversified deposit base. Credicorp's core deposits (savings, CTS and demand deposits) accounted for more than 58.8% of total deposits at December 31, 1998, and, traditionally, for more than 61% of total deposits considering BCP

individually. Credicorp's market share in this type of deposit amounts to 40.7% of the system at December 31, 1998.

Regulatory Capital and Capital Adequacy Ratios

	As of December 31,			
	1995	1996	1997	1998
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Capital stock	US\$ 404,052	US\$ 454,119	US\$ 515,442	US\$ 552,238
Legal and other capital reserves.....	69,527	69,527	69,527	69,527
Generic loan loss reserves.....	43,299	52,205	26,499	28,008
Generic contingency loss				
Reserves	7,025	11,211	0	0
Subordinated debt.....	0	13,446	47,530	58,771
Total.....	US\$ 523,903	US\$ 600,508	US\$ 658,998	US\$ 708,544
Less: investment in multilateral				
Organizations and Banks.....	(117)	(696)	(2,415)	(582)
Total Regulatory Capital(1)	US\$ 523,786	US\$ 599,812	US\$ 656,583	US\$ 707,962
Risk-weighted assets (1)	3,805,597	5,361,264	5,936,909	6,515,382
Capital Ratios:				
Regulatory capital as a percentage				
of risk-weighted assets	13.76%	11.19%	11.06%	10.87%
Ratio of risk-weighted assets to				
Regulatory capital (1).....	7.27	8.94	9.04	9.20

- (1) Credicorp currently is not required by the SBS to prepare these calculations on a consolidated basis. Law 26702, however, requires that such calculations be made on a consolidated basis, and such requirement will come into effect upon the issuance of implementing regulations by the SBS. On an unconsolidated basis, BCP's regulatory capital was US\$439.7 million and its risk-weighted assets were US\$4,157.9 million as of December 31, 1998, yielding a ratio of 9.46 to 1.0. ASB, which determines regulatory capital and risk-weighted assets in accordance with the Basel Accord, had a risk-weighted assets to regulatory capital ratio of 3.07 to 1.0.

Average shareholders' equity as a percentage of average total assets increased from 10.6% in 1996 to 10.1% in 1997, and declined to 9.5% in 1998.

(c) Liquidity Risk

The following table reflects the maturity and currency structure of Credicorp's assets, liabilities and shareholders' equity as of December 31, 1998:

	Year ended December 31, 1998			
	Nuevos Soles	Foreign currency	Total	Percentage
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Assets				
Financial Assets:				
Cash and due from banks	US\$ 111,246	US\$1,501,195	US\$1,612,441	20.28%
Other assets (1)				
Less than 3 months.....	409,356	2,520,133	2,929,489	36.84
From 3 months to 12 months	80,736	1,254,055	1,334,791	16.78
More than 12 months	384,180	1,380,616	1,764,796	22.19
Sub-Total.....	985,518	6,655,999	7,641,517	96.09
Non-Financial Assets:				
Bank premises and equipment and others	272,367	308,673	581,040	7.31

Reserves for loan losses	(39,684)	(230,398)	(270,082)	-3.40
Sub-Total.....	232,683	78,275	310,958	3.91%
Total	<u>US\$1,218,201</u>	<u>US\$6,734,274</u>	<u>US\$7,952,475</u>	<u>100.00%</u>
Percentage of total assets	15.32%	84.68%	100.00%	

Liabilities and Stockholders' Equity

Financial Liabilities:

Non-interest bearing deposits	US\$ 244,369	US\$321,074	US\$565,443	7.11%
Other liabilities (2)				
Less than 3 months (3)	702,412	3,915,976	4,618,389	58.07
From 3 months to 12 months.....	73,037	880,385	953,422	11.99
More than 12 months.....	80,306	562,575	642,880	8.08
Sub-Total.....	1,100,124	5,680,010	6,780,134	85.26

Non-Financial Liabilities and Equity:

Other liabilities	84,850	335,104	419,954	5.28
Stockholders' equity	516,955	235,432	752,387	9.46
Sub-Total.....	601,805	570,536	1,172,341	14.74
Total.....	<u>US\$1,701,929</u>	<u>US\$6,250,546</u>	<u>US\$7,952,475</u>	<u>100.00%</u>
Percentage of total liabilities and stockholders' equity	21.40%	78.60%	100.00%	

- (1) Consists of loans, marketable securities, investments, interest and other receivables, deferred expenses and other assets.
- (2) Demand, savings, certificates of deposit, time deposits and borrowings.
- (3) Includes US\$570.5 million of CTS deposits which, subject to certain exceptions, may be withdrawn by the depositor only upon termination of employment or upon transfer to another bank. Although classified as short-term, historically these deposits have been relatively stable.

Credicorp manages its assets and liabilities to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on our ability to adjust future cash flows to meet the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repayment on maturity of purchased funds, extensions of loans or other forms of credit, and working capital needs.

BCP is subject to SBS Resolution No. 622-98, enacted in July 1998, which made its Market Risk Unit responsible of liquidity management, and by which minimum liquidity ratios were established. The ratio of liquid assets as a percent of short term liabilities, as strictly defined by the SBS, has to exceed 8%, in case of Nuevos Soles based transactions, and 20% in case of Foreign exchange based transactions.

Credicorp has never defaulted on any of its debt or been forced to reschedule any of its obligations. Even during the early 1980s, when the government of Peru and many Peruvian companies and banks were forced to restructure their debt as a result of the Latin American debt crisis and government restrictions, BCP and PPS complied with all of their payment obligations.

Credicorp's principal source of funding is customer deposits with BCP's Retail Banking division and ASHC's Private Banking division, and at PPS, premiums and amounts earned on invested assets. The growth of Credicorp's deposit base over the past years has enabled Credicorp to increase significantly its lending activity. Credicorp believes that funds from its deposit-taking operations generally will continue to meet Credicorp's liquidity needs for the foreseeable future. The Retail

Banking division has developed a diversified and stable deposit base and the Private Banking division has developed a stable deposit base that, in each case, provides Credicorp with a low cost source of funding. This deposit base has traditionally been one of Credicorp's important strengths. BCP at times has accessed Peru's short-term interbank deposit market, although it is generally a lender in such market. The Central Bank's discount window, which makes short-term loans to banks at premium rates, is also available as a short-term funding source, but has been used infrequently by BCP. ASHC also has the ability to borrow from correspondent banks on an overnight basis at rates tied to the Federal Funds rate as well as funding lines from international financial institutions. At the end of 1998, Credicorp had credit lines available from correspondent banks totaling approximately US\$1,566 million, of which 38% was drawn down, including US\$56 million for long-term facilities that are mainly used for project financing. The latter figure includes funding from CAF, IFC and other international lenders.

In addition, mortgage loans may be funded by mortgage funding bonds (*letras hipotecarias*) that are sold by BCP in the market. Mortgage funding bonds are instruments sold by BCP with payment terms that are matched to the related mortgage loans, thereby reducing BCP's exposure to interest rate fluctuations and inflation. Mortgage funding bonds bear interest at a rate equal to a fixed spread (market interest rate plus commission) that is either tied to the rate of inflation or fixed for U.S. Dollar denominated transactions. At December 31, 1998, BCP had US\$7.4 million of outstanding mortgage bonds. A source of funds specific to leasing operations are leasing bonds issued by lease financing companies, the terms of which are specified in the Peruvian leasing regulations. As of December 31, 1998, BCP had US\$98.7 million of outstanding leasing bonds. These bonds have maturities extending from three to five years and bear the same interest as 360-day time deposits. In addition to its regular sources of funds, BCP is an intermediary of several medium-term credit lines for project financings in certain economic activities, from the Peruvian development financing company, COFIDE, and other international financial institutions like CAF, DEG, FMO and IFC.

Among the policies that Credicorp follows to ensure sufficient liquidity are the active management of interest rates and the active monitoring of market trends, in order to identify and provide for changes in the supply of deposits or the demand for loans.

The principal sources of funds for PPS's insurance operations are premiums and amounts earned on invested assets. The major uses of these funds are the payment of policyholder claims, benefits and related expenses, reinsurance costs, commissions and other operating costs. In general, PPS's insurance operations generate substantial cash flow because most premiums are received in advance of the time when claim payments are required. Positive operating cash flows, along with that portion of the investment portfolio that is held in cash and highly liquid securities, historically have met the liquidity requirements of PPS's insurance operations. See Notes 10 and 11 to Credicorp's Consolidated Financial Statements.

(d) Reconciliation of Differences Between IAS and U.S. GAAP

The Credicorp Consolidated Financial Statements have been prepared in accordance with IAS, which differ in certain significant respects from U.S. GAAP. The principal difference between IAS and U.S. GAAP, insofar as they relate to Credicorp, is the treatment of the valuation of securities. Credicorp believes that there is no significant difference between the amounts of the loan loss provisions taken under IAS and the provisions that would be required under U.S. GAAP. Net income for the year ended December 31, 1998 was US\$42.1 million under IAS compared to US\$35.3 million under U.S. GAAP. Net income for the year ended December 31, 1997 was US\$110.1 million under

IAS compared to US\$104.2 million under U.S. GAAP. Net income for the year ended December 31, 1996 was US\$116.1 million under IAS compared to US\$128.9 million under U.S. GAAP. Shareholders' equity under IAS was US\$752.4 million and US\$743.4 million at December 31, 1998 and 1997, respectively, compared to US\$729.0 million and US\$749.3 million, respectively, under U.S. GAAP. See Note 20 to the Credicorp Consolidated Financial Statements for a discussion of the principal differences between IAS and U.S. GAAP, insofar as they relate to Credicorp.

(e) Impact of the Year 2000 Issue

During 1997, Credicorp determined that it will be required to modify, replace or do extensive testing of significant portions of its software so that its computer systems will properly utilize dates beyond December 31, 1999. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue can be mitigated. However, if such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on Credicorp's operations.

Resolution of the Year 2000 problem has been assigned the highest priority, and a comprehensive enterprise-wide Year 2000 program was designed which includes numerous projects that address remediation of software, equipment, products and services, contingency plans, evaluation of our principal customers and suppliers, and a plan for communicating Y2K awareness to our employees, customers and general public. Projects were ranked by the importance of the function to our continuing operation as "Critical" and "Non-critical," and our principal clients and vendors as "High" or "Low" risk, based on whether Year 2000 issues could increase their credit risk profile or affect their operations. Contingency plans are being devised and tested in order to ensure that critical business functions can be carried out in the normal manner in the face of system or supplier failure. Contingency plans are being prepared by each individual business unit devising business resumption plans of critical applications, principally addressing identified most reasonably likely worst case scenarios.

As of May 1999, all of BCP's and Credicorp's principal subsidiaries applications, infrastructure and facilities have been completed and all "Critical" projects have been put into production, while the remaining subsidiaries are scheduled to finish by June 1999 their respective Year 2000 compliance. Work still continues on contingency plans, evaluation of customers and vendors, and testing of the integration with external partner interfaces. Credicorp plans to complete these Year 2000 projects by September, 1999, except for low risk client evaluation which will be treated as on-going projects.

Credicorp utilizes both internal and external resources to reprogram or replace, and test the software for Year 2000 modifications. The total cost of the Year 2000 program is estimated to be US\$14.0 million, of which approximately US\$6.4 million is attributable to the purchase of new hardware and software which will be capitalized, and amortized within five years. The remaining US\$7.6 million is attributable to third party fee and operating expenses, will be expensed as incurred and is not expected to have a material effect on the results of operations. Through 1998, total expenditures related to the Year 2000 issue were US\$8.7 million which together with the remaining cost, estimated at US\$5.3 million, will be funded through operating cash flows. The Year 2000 program staffing includes external resources as well as internal staff re-deployed from less time sensitive assignments.

Credicorp's Year 2000 program is continuously assessed on a monthly basis with progress reports made to the Board of Directors, Management Committee, CONASEV and SBS. Independent

assessments are regularly performed by the Internal Audit Division and, on a monthly, basis by a specialized international external consultant.

The costs of the project and the date on which Credicorp plans to complete the Year 2000 modifications are management's best estimates based on inherently uncertain information. However, there can be no guarantee that these estimates will be achieved, and actual results could differ materially from those plans. Additionally, to a certain degree, we rely on computer systems of third parties, such as customers, vendors, suppliers, and other banks, financial and governmental institutions. Although Credicorp is assessing the readiness of these third parties and preparing contingency plans, the failure of these third parties to modify their systems in advance of December 31, 1999, may have a material adverse effect on Credicorp's operations.

ITEM 9A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Credicorp's risk management has specific policies and procedures which structure and delineate exposures to market risk, liquidity and credit risks. Market risk is the risk of loss to future earnings, to fair values, or to future cash flows arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices, and other relevant market or price changes. Market risk is attributed to all market risk sensitive financial instruments, including securities, loans, deposits, borrowings, as well as derivative instruments. The objective of market risk management is to avoid excessive exposure of our earnings and equity to loss and to reduce the volatility inherent in financial instruments.

Credicorp's primary market risk exposure is that to interest rates as the net interest income is affected primarily by interest rate volatility, and, to a lesser extent, to foreign currency exchange risk. The management of interest rate risk has to consider the differences between Nuevos Soles and Foreign Currency based interest sensitive assets and liabilities. Credicorp has not entered into derivative instrument contracts with the exception of foreign currency forward agreements. Furthermore, Credicorp's policy has been to hedge substantially all of the exchange risk of these forward contracts.

Asset and Liability Management

Credicorp's exposure to market risk is a function of its asset and liability management activities, its trading activities for its own account, and its role as a financial intermediary in customer-related transactions. Credicorp's asset and liability management policy seeks to ensure sufficient liquidity to meet operational funding requirements, as well as to supervise, measure and control interest rate and exchange risks, as well as market risks on securities trading positions. Credicorp is in the process of implementing new computer applications, currently used by BCP, for the asset and liability management tasks which will improve risk control and further help in the process of integrating the operations being performed by its subsidiaries.

In BCP, decisions regarding management of liquidity, interest rate policy, foreign exchange position and other significant asset and liability management matters are made by the Market Risk Committee consisting of a member of the Board of Directors, the General Manager, the Executive Vice President, Credicorp's Senior Vice President—Insurance, two Central Managers, six Division Managers and the Head of the Market Risk Unit. The committee meets monthly. Day-to-day asset and management liability decisions are made by the Central Manager of Finance and the Treasury Department and reviewed in the weekly senior management meeting. In ASHC, decisions regarding

asset and liability management are made by its President and Senior Vice President—Manager of Operations and Administration and Chief Financial Officer.

In order to manage risks arising from changes in the price of financial instruments and securities prices, Credicorp uses a variety of non-statistical methods including: position limits for each trading activity, daily marking of all positions to market, daily profit and loss statements, position reports, and independent verification of all inventory pricing. Additionally, the Market Risk Unit reports positions and profits and losses daily to the Treasurer and trading managers and weekly to the Chief Financial Officer. The Market Risk Committee is provided reports on a monthly basis. Credicorp believes that these procedures, which stress timely communication between the Market Risk Unit and senior management, are important elements of the risk management process.

The following table shows the maturities and fair value of Credicorp's marketable investment securities by type at December 31, 1998 (See "Item 1. (n) Selected Statistical Information-(ii) Investment Portfolio"):

	Within 3 months	After 3 months but within 1 year	Total	Fair Value
<i>(U.S. Dollars in thousands, except percentages)</i>				
Nuevo Sol-denominated:				
Equity securities	US\$ 8,287	US\$ 0	US\$ 8,287	US\$ 7,407
Bonds and debentures	2,304	8,009	10,313	10,313
Peruvian Central Bank certificate notes.....	15,646	0	15,646	15,646
Other investments.....	2,739	4,850	7,589	7,589
Total Nuevo Sol-denominated	US\$ 28,976	US\$ 12,859	US\$ 41,835	US\$ 40,955
Foreign Currency-denominated:				
Equity securities.....	US\$ 65,362	US\$ 0	US\$ 65,362	US\$ 60,868
Bonds.....	44,019	33,621	77,640	76,219
Investment in Peruvian debt.....	1,126	0	1,126	1,023
Other investments	88,786	74,988	163,774	162,611
Total Foreign Currency-denominated	US\$ 199,293	US\$ 108,609	US\$ 307,902	US\$ 300,721
Total securities holdings:	US\$ 228,269	US\$ 121,468	US\$ 349,737	US\$ 341,676
Allowance for unrealized losses	(7,444)		(7,444)	0
Total net securities holdings.....	<u>US\$ 220,825</u>	<u>US\$ 121,468</u>	<u>US\$ 342,293</u>	<u>US\$ 341,676</u>

The Nuevo Sol-denominated Other Investments are principally composed of US\$6.0 million of Certificate Notes of other financial institutions. The Dollar-denominated Other Investments are principally composed of US\$113.3 million of Certificate Notes of other financial institutions, of which US\$54.4 million were issued by Central Banks other than the Peruvian Central Bank, and US\$23.5 million of Latin American debt from countries other than Peru.

The following table shows the maturities of Credicorp's available for sale investment securities by type at December 31, 1998 (See "Item 1. (n) Selected Statistical Information-(ii) Investment Portfolio"):

	Within 1 year	After 1 year but within 5 years	Maturing After 5 years but within 10 years	After 10 years	Total	Fair Value
<i>(U.S. Dollars in thousands, except percentages)</i>						
Nuevo Sol-denominated:						
Equity securities	US\$ 0	US\$ 44,196	US\$ 93,463	US\$ 66,538	US\$204,197	US\$ 181,475
Bonds and debentures	0	0	0	0	0	0
Peruvian Central Bank certificate notes	0	0	0	0	0	0
Other investments	0	4,260	663	236	5,159	1,803
Total Nuevo Sol-denominated	US\$ 0	US\$ 48,456	US\$ 94,126	US\$ 66,774	US\$209,356	US\$183,278
Foreign Currency-denominated:						
Equity securities	US\$ 0	US\$ 0	US\$ 0	US\$ 45,570	US\$ 45,530	US\$ 44,171
Bonds	0	0	0	0	0	0
Investment in Peruvian debt	0	0	5,074	0	5,074	5,074
Other investments	8,609	0	2,981	446	12,036	12,034
Total Foreign Currency-denominated	US\$ 8,609	US\$ 0	US\$ 8,055	US\$ 45,976	US\$ 62,640	US\$ 61,279
Total securities holdings	<u>US\$ 8,609</u>	<u>US\$ 48,456</u>	<u>US\$ 102,181</u>	<u>US\$ 112,750</u>	<u>US\$271,996</u>	<u>US\$244,557</u>

Interest Rate Risk Management

A key component of Credicorp's asset and liability management policy is the management of adverse changes in earnings as a result of changes in interest rates. The management of interest rate risk relates to the timing and magnitude of the repricing of assets compared to liabilities and has, as its objective, the control of risks associated with movements in interest rates. Credicorp does not manage interest rate risk through the use of interest derivative contracts. As part of the management of interest rate risks, BCP's Market Risk Committee may direct changes in the composition of the balance sheet.

One method of measuring interest rate risk is by measuring the interest rate sensitivity gap. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or repricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities mature or reprice in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decrease in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income.

The following table reflects, according to maturity and by currency, the interest-earning assets and interest-bearing liabilities of Credicorp as of December 31, 1998, and may not be representative of positions at other times. In addition, variations in interest rate sensitivity may arise within the repricing periods presented or among the currencies in which interest rate positions are held. Credicorp actively monitors and manages its interest rate sensitivity and has the ability to reprice relatively promptly both its interest-earning assets and interest-bearing liabilities. On the basis of its gap position at December 31, 1998, Credicorp believes that a significant increase or decrease in interest rates would not reasonably be expected to have a material effect on Credicorp's financial condition or results of operations.

Earliest Repricing Interval at December 31, 1998

	Overnight to 3 months	Over 3 to 12 months	Total within one year	Over 1 to 5 years	Over 5 years	Total
	<i>(U.S. Dollars in thousands, except percentages)</i>					
Nuevo Sol-denominated:						
Assets:						
Loans, net.....	263,318	71,619	334,937	177,163	5,105	517,205
Investment securities	20,959	12,589	33,548	4,260	901	38,709
Deposits in other banks	<u>8,616</u>	<u>0</u>	<u>8,616</u>	<u>0</u>	<u>0</u>	<u>8,616</u>
Total	<u>292,893</u>	<u>84,208</u>	<u>377,101</u>	<u>181,423</u>	<u>6,006</u>	<u>564,530</u>
Liabilities:						
Demand and Saving deposits	413,377	0	413,377	0	0	413,377
Time deposits	177,216	92,153	269,369	13,490	0	282,859
Interbank deposits received.....	11,519	0	11,519	0	0	11,519
Bonds and other liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>58,487</u>	<u>58,487</u>
Total	<u>602,112</u>	<u>92,153</u>	<u>694,265</u>	<u>13,490</u>	<u>58,487</u>	<u>766,242</u>
Interest Sensitivity gap	(309,219)	(7,945)	(317,164)	167,933	(52,481)	(201,712)
Cumulative interest sensitivity gap	(309,219)	(317,164)	(317,164)	(149,231)	(201,712)	(201,712)
Cumulative interest-earning assets	292,893	377,101	377,101	558,524	564,530	564,530
Cumulative interest sensitivity gap	-105.57%	-84.11%	-84.11%	-26.72%	-35.73%	-35.73%
Foreign Currency-denominated:						
Assets:						
Loans, net	2,006,340	988,496	2,994,836	990,595	331,732	4,317,163
Investment securities	142,580	108,609	251,189	0	8,499	259,688
Deposits in other banks, and Other instruments	<u>1,360,700</u>	<u>0</u>	<u>1,360,700</u>	<u>0</u>	<u>0</u>	<u>1,360,700</u>
Total	<u>3,509,620</u>	<u>1,097,105</u>	<u>4,606,725</u>	<u>990,595</u>	<u>340,231</u>	<u>5,937,551</u>
Liabilities:						
Demand and saving deposits	2,248,282	0	2,248,282	0		2,248,282
Time deposits	1,200,393	475,416	1,675,809	293,240	5,032	1,974,081
Interbank deposits received and Borrowings.....	<u>321,886</u>	<u>384,203</u>	<u>706,089</u>	<u>328,018</u>	<u>9,837</u>	<u>1,043,943</u>
Bonds and Mortgage notes	<u>524</u>	<u>1,650</u>	<u>2,174</u>	<u>8,133</u>	<u>8,773</u>	<u>19,079</u>
Total	<u>3,771,085</u>	<u>861,269</u>	<u>4,632,354</u>	<u>629,390</u>	<u>23,641</u>	<u>5,285,385</u>
Interest sensitivity gap	(261,465)	235,836	(25,629)	361,205	316,590	652,166
Cumulative interest sensitivity gap	(261,465)	(25,629)	(25,629)	335,576	652,166	652,166
Cumulative interest-earning Assets	3,509,620	4,606,725	4,606,725	5,597,320	5,937,551	5,937,551
Cumulative interest sensitivity gap	-7.45%	-0.56%	-0.56%	6.00%	10.98%	10.98%
Total interest sensitivity gap	(570,684)	227,891	(342,793)	529,138	264,109	450,454
Cumulative interest sensitivity gap	(570,684)	(342,793)	(342,793)	186,345	450,454	450,454
Total interest-earning assets....	3,802,513	1,181,313	4,983,826	1,172,018	346,237	6,155,844
Cumulative interest-earning Assets	3,802,513	4,983,826	4,983,826	6,155,844	6,502,081	6,502,081
Cumulative interest sensitivity gap as a percentage of cumulative interest earning assets.....	-15.01%	-6.88%	-6.88%	3.03%	6.93%	6.93%

(1) includes CTS

In addition to the static gap position, BCP employs a simulation analysis to measure the degree of short term interest risk assumed. Sensitivity analysis is performed to express the potential gains or losses in future earnings resulting from selected hypothetical changes in interest rates. Sensitivity models are calculated on a monthly basis using both actual balance sheet figures detailed by maturity and interest yields or costs. Simulations are run using various interest rate scenarios to determine potential changes to future earnings.

The forward looking simulation results of Credicorp reflect changes between a most likely to occur interest rate scenario as compared with both rising and declining interest rate scenarios applied to interest earning assets and liabilities as of December 31, 1998. At December 31, 1998, Credicorp had a short term negative gap with US\$342.8 million more liabilities than assets repricing within one year, amounting to 6.9% of cumulative interest earning assets. The most likely scenario considers as the initial situation the relatively high rates prevailing during December 1998, caused by volatility in financial markets and decreased international capital flows. A slow decline in rates is foreseen through mid-1999, with the term structure holding steady thereafter due to expected recovery of economic activity and more aggressive public spending in Peru. Interest rate “shock” simulations, immediately changing rates at all repricing intervals, as well as gradual interest rate change scenarios, with parallel shifts in the yield curve, were made against the most likely case, and separately devised for U.S. Dollar denominated interest rates and for Nuevos Soles denominated interest rates. The Nuevos Soles rate changes ranged from 200 to 300 basis points, while the U.S. Dollar rates changes ranged from 100 to 200 basis points, in both cases representing up to approximately 10% compared to the base case rates, with the higher range applied in the “shock” scenario case.

The hypothetical favorable rate scenario for the next twelve months consisted principally on reduced funding costs, resulting in a net interest income pre-tax increase of 9.1% or US\$35.7 million compared to the base case, US\$9.3 million from Nuevos Soles operations and US\$26.4 million from Foreign Currency denominated operations. The unfavorable case gradually, starting with short term rates, raises funding costs relatively more in relation to loan rates, and decreases pre-tax net interest income 5.6% or US\$22.0 million, US\$6.5 million from Nuevos Soles operations and US\$15.5 million from Foreign Currency denominated operations. The unfavorable “shock” changes immediately short term rates by approximately 10%, which given the negative short term gap situation causes a pre-tax net interest income decline of 17.9% or US\$70.1 million, US\$20.8 million from Nuevos Soles operations and US\$49.3 million from Foreign Currency denominated operations.

Gap simulation analysis has several shortcomings, one of which its “static” nature, that is, that it does not consider ongoing loan and deposit activity, and another of which is the inadequate treatment of individually negotiated loan and deposit rates, as in prime client cases, or the finer breakdown of rates applicable to different business segments. Additionally, Credicorp considers within the Foreign Currency category not only U.S. Dollar denominated transactions, but also currencies of its subsidiaries in Bolivia, Colombia and El Salvador, which may present different trends in certain periods but, due to their relative small value do not significantly affect the results of their analysis.

Exchange Rate Sensitivity

Credicorp’s market risk exposure to foreign currency exchange fluctuations is attributed to its net asset or net liability positions in currencies other than U.S. Dollars. Adverse fluctuations in foreign exchange may result in losses principally from the exposure to Nuevos Soles, which amounted to a net liability position of US\$114.8 million at December 31, 1998, and to a lesser extent to positions in other

currencies, which had a net asset position of US\$11.1 million at December 31, 1998. See Note 3 to the Credicorp Consolidated Financial Statements.

Earnings sensitivity is estimated by directly applying expected foreign currency devaluation or revaluation rates on the above net positions. The Nuevos Soles net liability position results in exchange gains whenever the Peruvian currency devalues against the U.S. Dollar, while a revaluation would generate income losses. A 10% change in the Nuevo Sol exchange rate would generate an US\$11.5 million gain or loss in case of devaluation or re-valuation, respectively. Given the evolution of the exchange rate in past years, a revaluation scenario for the Nuevo Sol is very unlikely for the next twelve months. See “Item 6. Exchange Controls and Other Limitations Affecting Security Holders.” The net asset position in other foreign currencies is principally composed of Bolivian Bolivianos, Colombian Pesos and Salvadorean Colones. Management expects that the exchange risk in these currencies will not be significant, although some exposures are managed from time to time through foreign exchange forward contracts.

As of December 31, 1998, Credicorp’s total U.S. Dollar-denominated assets were US\$6,190.8 million and its U.S. Dollar-denominated liabilities were US\$5,716.7 million, resulting in a net U.S. Dollar asset position of US\$474.2 million. Of such amount, approximately 39% represented the net U.S. Dollar asset position of Credicorp’s non-Peruvian subsidiaries, which conduct most of their operations in U.S. Dollars, and approximately 55% represented fully covered foreign currency forward sales. Credicorp considers its net U.S. Dollar asset position to be reasonable in view of the volume of its foreign currency activities and the environment in which it operates. Historically, in order to provide some protection from the combined effects of devaluation and inflation, Credicorp has followed, and continues to follow, a policy of maintaining the sum of its net U.S. Dollar assets, real estate assets and investments in equity securities at least equal to shareholders’ equity.

Beginning in March 1999 BCP segregates part of its regulatory capital to cover foreign exchange risk exposure, with the remaining used to cover credit risk. See “Item 1. (I) Supervision and Regulation – Capital Adequacy Requirements.”

Derivatives Trading Activities

Credicorp provides its customers with access to a wide range of products from the securities, foreign exchange, and, to a lesser extent, derivatives markets. We enter into trading activities primarily as a financial intermediary for customers, and, to a lesser extent, for our own account. In acting for our own account, we may take positions in some of these instruments with the objective of generating trading profits.

Except for foreign currency forward commitments, Credicorp does not enter into derivative transactions, including interest rate swaps, currency swaps or options. Foreign exchange forward contracts are agreements for future delivery of money market instruments in which the seller agrees to make delivery at a specified future date of an instrument, at a specified price or yield. As of December 31, 1998, the notional amounts of outstanding contracts is approximately US\$320.6 million, with maturities for periods less than a year. Such contracts are signed solely to serve customer needs and the exchange risk is totally hedged with other operations.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

(a) Board of Directors

The management of Credicorp is the responsibility of the Board of Directors, which, pursuant to Credicorp's by-laws (the "By-Laws"), must be composed of at least three persons. Directors need not be shareholders. Directors are elected and their remuneration determined at annual general meetings of Credicorp's shareholders and hold office for such term as the shareholders may determine or, in the absence of such determination, until the next annual general meeting or until their successors are elected or appointed. Credicorp currently has five Directors.

Pursuant to the By-Laws, the number of Directors required to constitute a quorum shall be the majority of the number of Directors elected at the most recent annual general meeting of shareholders. A quorum must exist throughout any meetings of Directors. A director can appoint another Director to act as his proxy at a meeting of the Board of Directors. Decisions of the Board of Directors require the vote of a majority of Directors present or represented at a duly convened meeting. The Board can act by the unanimous written consent of all Directors.

The following table sets forth the current Directors of Credicorp.

<u>Name</u>	<u>Position</u>	<u>Years served as a Director</u>(1)
Dionisio Romero(2)	Chairman	30
Luis Nicolini	Deputy Chairman	23
Fernando Fort (since March 1999)	Director	17
Reynaldo Llosa	Director	16
José Antonio Onrubia(2)	Director	10
Juan Carlos Verme	Director	9

(1) Of Credicorp, its subsidiaries and their predecessors as of December 31, 1998.

(2) Dionisio Romero and José Antonio Onrubia are first cousins.

The Secretary of the Board of Directors is Dawna L. Ferguson (since January 1999). The Assistant Secretary of the Board of Directors is Fernando Palao.

(b) Executive Officers

Pursuant to the By-Laws, the Board of Directors has the power to delegate its power over day-to-day management to one or more Directors, officers, employees or agents. The following table sets forth information concerning the principal executive officers of Credicorp.

<u>Name</u>	<u>Position</u>	<u>Years Served as an Officer</u> (1)
Dionisio Romero	Chief Executive Officer	33 (2)
Raimundo Morales	Chief Operating Officer	19
Carlos Muñoz	Executive Vice President	18
Benedicto Cigüeñas	Chief Financial and Accounting Officer	8
José Luis Gagliardi	Senior Vice President—	16 (3)

-
- (1) Of Credicorp, its subsidiaries and their predecessors as of December 31, [1998].
 - (2) Mr. Romero served as an officer of BCP from 1966 through 1987 and from 1990 to the present. Mr. Romero has been an officer of PPS since 1972.
 - (3) Mr. Gagliardi served as an officer of BCP from 1981 through 1988.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS

The aggregate amount of compensation paid by Credicorp to all directors and executive officers for 1998 was US\$3.87 million. Credicorp does not disclose to its shareholders or otherwise make available to the public information as to the compensation of its individual directors or executive officers.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

None.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

(a) Credicorp

Under Bermuda law, Credicorp is not subject to any restrictions on transactions with affiliates beyond those which are applicable to Bermuda companies generally. Credicorp's Bye-Laws provide that a Director may not vote in respect of any contract or proposed contract or arrangement in which such Director has an interest or in which such Director has a conflict of interest. Credicorp has not engaged in any transactions with related parties except through its subsidiaries.

(b) BCP

Certain related parties of BCP (the "BCP related parties") have been involved, directly or indirectly, in credit transactions with BCP. In accordance with Law 26702, the term "BCP related parties" includes directors, certain principal executive officers and holders of more than 4% of the shares of BCP, and companies controlled (for purposes of Law 26702) by any of them. Under Law 26702, all loans to related parties must be made on terms no more favorable than the best terms that the bank offers to the public. Management believes BCP to be in full compliance with all related party transaction requirements imposed by Law 26702. For a description of Law 26702 as it relates to BCP, see "Item 1. Description of Business—(l) Supervision and Regulation—(ii) BCP" and "Item 1. Description of Business —(n) Selected Statistical Information—Loan Portfolio—Concentration of Loan Portfolio and Lending Limits."

As of December 31, 1998, loans and other contingent credits to BCP related parties were US\$168.3 million in the aggregate, including US\$150.2 million in outstanding loans, which comprised approximately 3.3% of BCP's total loan portfolio. These loans and other contingent credits were ranked in the following risk categories at December 31, 1998: Class A (normal credits)—73.1%; Class B (potential problems)—19.3%; Class C (substandard)—7.5%; Class D (doubtful)—0.1%; and Class E (loss)—0%.

At December 31, 1998, loans and other credits to employees of BCP amounted to US\$28.6 million, of which US\$24.0 million represented home mortgage loans.

In May 1998, Credicorp completed a securitization by which Credititulos acquired office buildings from a related party for US\$10.2 million. In February 1999 Credititulos issued bonds against this collateral which will be serviced with the expected lease income stream.

BCP purchases certain security services from a company controlled by a BCP related party. As of December 31, 1998, the total fees paid by BCP thereto for security services were S/13.9 million (US\$4.5 million). Such related party transactions have been conducted in the ordinary course of business and on terms no less favorable than could be obtained from unaffiliated third parties.

(c) ASHC

Certain related parties of ASHC (the “ASHC related parties”) have been involved, directly or indirectly, in credit transactions with ASHC. The term “ASHC related parties” includes other affiliated entities in which there exists control or significant influence through common ownership, management or directorship. As of December 31, 1998, loans and other credits outstanding to ASHC’s related parties were US\$16.7 million in the aggregate, all of which were loans representing 5.5% of the total loan portfolio. None of these loans and other credits were classified as substandard or below.

Management believes that, in accordance with ASHC’s policies, all loans and credits to related parties have been made on terms no more favorable than the best terms that ASHC offers to the public.

(d) PPS

PPS provides insurance services to certain of its principal shareholders, directors and officers, as permitted by Law 26702. See “Item 1. Description of Business—(1) Supervision and Regulation—(iii) PPS—Related Party Transactions.” In the case of “related companies,” entities controlled by shareholders owning more than 4% of PPS or by members of PPS’s Board of Directors, insurance services are offered and sold on an arm’s-length basis; PPS charges a market price for these services. As of December 31, 1998, insurance premiums to related companies amount to S/30.5 million (US\$9.7 million). These insurance premiums comprise approximately 6.1% of PPS’s total premiums written during 1998.

PPS purchases security services from a company controlled by a related party of a principal shareholder of Credicorp. Service payments thereto during 1998, were S/761 thousand (US\$243,000). All such related party transactions are conducted on an arm’s-length basis, and PPS pays the market price for these services.

As of December 31, 1998, loans and other credits to employees of PPS amounted to S/2.7 million (US\$855,000), of which a substantial majority represented home mortgage loans.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None.

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-42.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

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All supplementary schedules relating to the registrant are omitted because they are not required or because the required information, where material, is contained in the consolidated financial statements or notes thereto.

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND DECEMBER 31, 1997 AND
FOR THE THREE YEARS ENDED DECEMBER 31, 1998

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998 AND DECEMBER 31, 1997 AND
FOR THE THREE YEARS ENDED DECEMBER 31, 1998

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Report of independent accountants

Consolidated balance sheet

Consolidated statement of income

Consolidated statement of changes in shareholders' equity

Consolidated statement of cash flows

Notes to the consolidated financial statements

US\$ = United States dollar

S/. = Peruvian new sol

REPORT OF INDEPENDENT ACCOUNTANTS

January 29, 1999, except for Note 20, as to which the date is May 20, 1999

To the Board of Directors and Shareholders
Credicorp Ltd.

We have audited the accompanying consolidated balance sheets of Credicorp Ltd. (a Bermuda limited liability company) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the years then ended. These financial statements are the responsibility of the management of Credicorp Ltd.; our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements for the year ended December 31, 1996 were audited by other independent accountants, whose report dated February 14, 1997, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards which are substantially consistent with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Credicorp Ltd.'s management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements audited by us present fairly, in all material respects, the financial position of Credicorp Ltd. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for the years then ended, in conformity with International Accounting Standards.

Accounting principles used by Credicorp Ltd. and its subsidiaries in preparing the accompanying consolidated financial statements conform with International Accounting Standards, which vary in certain significant respects from generally accepted accounting principles in the United States of America. The application of the latter would have affected the determination of consolidated net income for the years ended December 31, 1998 and 1997, and the determination of consolidated shareholders' equity and consolidated financial position at December 31, 1998 and 1997 to the extent summarized in Note 20 to the consolidated financial statements.

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Notes 1, 2 and 3)

ASSETS

	<u>At December 31,</u>	
	<u>1998</u>	<u>1997</u>
	<u>US\$000</u>	<u>US\$000</u>
CASH AND DUE FROM BANKS (Note 4)		
Non-interest bearing	243,125	306,482
Interest bearing	<u>1,369,316</u>	<u>1,501,686</u>
	<u>1,612,441</u>	<u>1,808,168</u>
MARKETABLE SECURITIES,NET (Note 5)	<u>342,293</u>	<u>562,738</u>
LOANS (Note 6)	5,104,450	4,573,781
Less, reserve for loan losses	<u>(270,082)</u>	<u>(209,810)</u>
	<u>4,834,368</u>	<u>4,363,971</u>
INVESTMENTS IN SECURITIES AVAILABLE FOR SALE (Note 7)	<u>271,996</u>	<u>247,753</u>
PREMIUMS AND OTHER POLICIES RECEIVABLE	<u>43,632</u>	<u>32,273</u>
REINSURANCE RECEIVABLE	<u>55,840</u>	<u>35,576</u>
PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 8)	<u>290,785</u>	<u>273,201</u>
DUE FROM CUSTOMERS ON ACCEPTANCES	<u>54,198</u>	<u>69,363</u>
OTHER ASSETS (Note 9)	<u>401,153</u>	<u>364,040</u>
GOODWILL	<u>45,769</u>	<u>46,374</u>
Total assets	<u>7,952,475</u>	<u>7,803,457</u>
OFF - BALANCE SHEET ACCOUNTS (Note 15)	<u>14,385,246</u>	<u>11,854,857</u>

LIABILITIES AND SHAREHOLDERS'EQUITY

	<u>At December 31,</u>	
	<u>1998</u>	<u>1997</u>
	<u>US\$000</u>	<u>US\$000</u>
DEPOSITS AND OBLIGATIONS (Note 10)		
Non-interest bearing	565,443	551,391
Interest bearing	<u>4,918,599</u>	<u>4,880,862</u>
	<u>5,484,042</u>	<u>5,432,253</u>
DUE TO BANKS AND CORRESPONDENTS (Note 11)		
Short-term borrowings	712,412	732,469
Long-term debt	<u>335,091</u>	<u>230,892</u>
	<u>1,047,503</u>	<u>963,361</u>
BANKERS' ACCEPTANCES OUTSTANDING	<u>54,198</u>	<u>69,363</u>
RESERVE FOR PROPERTY AND CASUALTY CLAIMS	<u>104,155</u>	<u>71,989</u>
RESERVE FOR UNEARNED PREMIUMS	<u>62,084</u>	<u>63,994</u>
REINSURANCE PAYABLE (Note 12)	<u>9,067</u>	<u>11,420</u>
OTHER LIABILITIES (Note 9)	<u>281,319</u>	<u>304,233</u>
SUBORDINATED DEBT	<u>58,771</u>	<u>47,530</u>
MINORITY INTEREST	<u>98,949</u>	<u>95,910</u>
SHAREHOLDERS' EQUITY (Note 13)		
Common shares	471,912	429,009
Treasury stocks	(67,173)	(61,066)
Capital surplus	147,499	147,499
Legal reserve	69,527	69,527
Retained earnings	<u>130,622</u>	<u>158,435</u>
Total Shareholders' equity	<u>752,387</u>	<u>743,404</u>
Total Liabilities and Shareholders' equity	<u>7,952,475</u>	<u>7,803,457</u>
OFF - BALANCE SHEET ACCOUNTS (Note15)	<u>14,385,246</u>	<u>11,854,857</u>

The accompanying notes are an integral part of the consolidated financial statements.

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME (Notes 1 and 2)

	For the years ended December 31,		
	1998	1997	1996
	US\$000	US\$000	US\$000
INTEREST INCOME:			
Interest from loans	719,315	668,953	562,624
Interest from deposits with banks	78,193	64,555	66,675
Interest from marketable securities	54,899	50,895	22,176
Dividends on investments	13,358	8,654	3,088
Total interest income	<u>865,765</u>	<u>793,057</u>	<u>654,563</u>
INTEREST EXPENSE:			
Interest on deposits	(357,787)	(308,982)	(251,222)
Interest on loans from banks and correspondents	(92,197)	(75,089)	(71,084)
Other interest expense	(19,260)	(18,485)	(13,311)
Total interest expense	<u>(469,244)</u>	<u>(402,556)</u>	<u>(335,617)</u>
Net interest income	396,521	390,501	318,946
Provision for loan losses, net of recoveries (Note 6)	(170,560)	(89,665)	(57,835)
Net interest income after provision for loan losses	<u>225,961</u>	<u>300,836</u>	<u>261,111</u>
OTHER INCOME:			
Commissions from banking services	143,895	145,867	123,224
Net gain from sales of securities	683	25,447	12,202
Net gain on foreign exchange transactions	28,889	27,843	23,661
Net premiums earned	119,195	104,668	78,639
Other	51,358	43,333	38,402
	<u>344,020</u>	<u>347,158</u>	<u>276,128</u>
INSURANCE ACTIVITY CLAIM:			
Net claims incurred	(37,217)	(33,444)	(29,142)
Increase in cost for future policy benefits of life and health contracts	(50,899)	(43,618)	(36,802)
	<u>(88,116)</u>	<u>(77,062)</u>	<u>(65,944)</u>
OTHER EXPENSE:			
Salaries and employees' benefits	(181,524)	(188,517)	(153,876)
Administrative expenses	(160,212)	(152,363)	(119,814)
Depreciation and amortization	(35,877)	(30,482)	(25,074)
Amortization of goodwill	(2,742)	(2,184)	(2,184)
Other	(50,534)	(28,471)	(14,444)
	<u>(430,889)</u>	<u>(402,017)</u>	<u>(315,392)</u>
Income before translation gain, income tax and minority interest	50,976	168,915	155,903
Translation gain (loss)	25,232	(2,977)	15,804
Income tax provision (Note 14)	(25,589)	(43,213)	(42,564)
Minority interest	(8,523)	(12,665)	(12,994)
Net income for the year	<u>42,096</u>	<u>110,060</u>	<u>116,149</u>
Earnings per share	<u>0.52</u>	<u>1.36</u>	<u>1.43</u>

The accompanying notes are an integral part of the consolidated financial statements.

CREDICORP LTD. AND SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Notes 1, 2 and 13)
FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 1998**

	Number of outstanding shares (in thousands)	Common shares US\$000	Treasury stock US\$000	Capital surplus US\$000	Legal reserve US\$000	Retained earnings US\$000	Total share- holders' equity US\$000
Balances as of January 1, 1996	60,852	304,261	(44,497)	144,288	69,527	98,462	572,041
Capitalization and transfer	10,649	53,246	(7,579)	-	-	(45,667)	-
Treasury stock used for the acquisition of minority interest of ASH (Note 1)	-	-	1,189	3,211	-	-	4,400
Cash dividends	-	-	-	-	-	(28,581)	(28,581)
Net income for the year	-	-	-	-	-	116,149	116,149
Balances as of December 31, 1996	71,501	357,507	(50,887)	147,499	69,527	140,363	664,009
Capitalization of retained earnings	14,300	71,502	(10,179)	-	-	(61,323)	-
Cash dividends	-	-	-	-	-	(30,665)	(30,665)
Income for the year	-	-	-	-	-	110,060	110,060
Balances as of December 31, 1997	85,801	429,009	(61,066)	147,499	69,527	158,435	743,404
Capitalization of retained earnings	8,581	42,903	(6,107)	-	-	(36,796)	-
Cash dividends	-	-	-	-	-	(33,113)	(33,113)
Income for the year	-	-	-	-	-	42,096	42,096
Balances as of December 31, 1998	<u>94,382</u>	<u>471,912</u>	<u>(67,173)</u>	<u>147,499</u>	<u>69,527</u>	<u>130,622</u>	<u>752,387</u>

The accompanying notes are an integral part of the consolidated financial statements.

CREDICORP LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the years ended December 31.		
	1998	1997	1996
	US\$000	US\$000	US\$000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income for the year	42,096	110,060	116,149
Add (deduct):			
Provision for loan losses, net of recoveries	170,560	89,665	57,835
Depreciation and amortization	35,877	30,482	25,074
Amortization of goodwill	2,742	2,184	2,184
Property, furniture and equipment disposed or sold	7,268	4,694	3,634
Net gain from sales of securities	(683)	(25,447)	(12,202)
Translation (gain) loss	(25,232)	2,977	(15,804)
Net changes in assets and liabilities, net of the effect of purchases of Banco Tequendama and Banco Capital in 1997:			
Increase in other assets	(11,163)	(137,998)	(9,735)
Increase (decrease) in other liabilities	<u>3,660</u>	<u>114,312</u>	<u>(20,551)</u>
Net cash provided by operating activities	<u>225,125</u>	<u>190,929</u>	<u>146,584</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net increase in loans	(500,892)	(484,248)	(894,704)
Purchase of marketable securities	(1,966,961)	(969,830)	(986,137)
Sale of marketable securities	2,194,401	756,852	889,244
Purchase of property, plant and equipment	(55,287)	(48,443)	(52,517)
Purchase of securities available for sale	(36,440)	(74,541)	(26,834)
Sales of securities available for sale	13,797	33,235	8,838
Net cash paid for the acquisition of Banco de la Paz in 1998 and Banco Tequendama and Banco Capital in 1997	<u>(8,959)</u>	<u>(12,553)</u>	<u>-</u>
Net cash used in investing activities	<u>(360,341)</u>	<u>(799,528)</u>	<u>(1,062,110)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits and obligations	(45,675)	723,363	843,900
Net increase in due to banks and correspondents	37,892	216,959	330,195
Increase in subordinated debt	5,860	35,290	13,446
Cash dividends	<u>(33,113)</u>	<u>(30,665)</u>	<u>(28,581)</u>
Net cash (used in) provided by financing activities	<u>(35,036)</u>	<u>944,947</u>	<u>1,158,960</u>
Translation gain (loss) on cash and due from banks	<u>(25,475)</u>	<u>7,113</u>	<u>6,386</u>
Net (decrease) increase in cash and due from Banks	(195,727)	343,461	249,820
Cash and cash equivalents at the beginning of the year	<u>1,808,168</u>	<u>1,464,707</u>	<u>1,214,887</u>
Cash and cash equivalents at the end of the year	<u>1,612,441</u>	<u>1,808,168</u>	<u>1,464,707</u>
SUPPLEMENTARY CASH INFORMATION			
Cash paid during the year for:			
Interest	411,328	366,224	341,194
Income taxes	10,638	45,352	54,037
Supplementary schedule of non-cash investing and financing activities:			
In 1998, the Group acquired Banco de la Paz and in 1997 Banco Tequendama and Banco Capital. The fair values of the assets acquired and liabilities assumed are as follows:			
Fair value of assets acquired	165,445	438,518	-
Goodwill	4,243	2,740	-
Liabilities assumed	(152,675)	(386,373)	-
Minority interest	<u>(788)</u>	<u>(124)</u>	<u>-</u>
	16,225	54,761	-
Less cash and due from banks of the acquired entities	<u>(7,266)</u>	<u>(42,208)</u>	<u>-</u>
Net cash of the acquisition	<u>8,959</u>	<u>12,553</u>	<u>-</u>

The accompanying notes are an integral part of the consolidated financial statements.

CREDICORP LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1998 AND DECEMBER 31, 1997

1 NATURE OF OPERATIONS

Credicorp Ltd. ("Credicorp") is a limited liability company incorporated in Bermuda in 1995 to act as a holding company and to coordinate the policy and administration of its subsidiaries. It is also engaged in investing activities.

On October 20, 1995 Credicorp acquired 90.08%, 98.24% and 75.83% of the capital stock of Banco de Crédito del Perú (BCP), Atlantic Security Holding Corporation (ASH) and El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros (PPS), respectively, through an offering of its own shares in exchange for shares of the afore-mentioned companies. During 1996, and 1997 and 1998, Credicorp acquired 0.34%, 0.08% and 0.05%, respectively, of the capital stock of Banco de Crédito del Perú, increasing its participation to 90.42%, 90.50% and 90.55%, respectively, in the capital of such entity. In addition, during 1996 it purchased 1.76% of the capital stock of Atlantic Security Holding Corporation, increasing its participation to 100% in the capital of such entity.

BCP is a Peruvian corporation incorporated on April 3, 1889, authorized to engage in banking activities by the Superintendencia de Banca y Seguros (SBS), the Peruvian banking and insurance authority. The objective of BCP is to promote the development of commercial and industrial activities in Peru. Accordingly, it is authorized to receive and lend financial funds and to provide all banking services and perform operations that correspond to a multiple services bank as stated in Law 26702 (General Law of the Financial and Insurance Systems and Organic Law of the SBS).

ASH is incorporated in the Cayman Islands. Its primary activity is to invest in the capital stock of companies. Its most significant subsidiary is Atlantic Security Bank (ASB). ASB is incorporated in The Cayman Islands and began operations on December 14, 1981, carrying out its activities through branches and offices in Grand Cayman, the Republic of Panama and the United States of America.

PPS is a Peruvian corporation whose principal activity is the issuance and administration of property and casualty insurance and the performance of related activities under Law 26702. PPS also provides accident, health and life insurance.

Inversiones Crédito del Perú S.A. is a Peruvian corporation incorporated on February 17, 1987 whose principal activity is investment in listed and non-listed equity securities.

In July 1998, Credicorp acquired 97% of the shares of Banco de La Paz (Bolivia) for US\$16.2 million. In January and December, 1997 it acquired 99.99% and 97% of the shares of Banco Tequendama (Colombia) and of Banco Capital (Republic of El Salvador), respectively, for approximately US\$48.01 million and US\$6.8 million, respectively. The fair values of the identifiable assets and liabilities of such financial entities were as follows:

	Banco de La Paz <u>31.07.98</u> US\$000	Banco Capital <u>31.12.97</u> US\$000	Banco Tequendama <u>31.12.96</u> US\$000
Loans, net	140,065	35,912	244,681
Other assets	25,380	16,976	140,949
Goodwill	4,243	2,740	-
Total liabilities	(152,675)	(48,753)	(337,620)
Minority interest	(788)	(124)	-
Net cash paid for the acquisition	16,225	6,751	48,010
Less cash and due from banks of the acquired entities	(7,266)	-	(42,208)
Net purchase price	<u>8,959</u>	<u>6,751</u>	<u>5,802</u>

2 ACCOUNTING PRINCIPLES AND POLICIES

Consolidation principles

The accompanying consolidated financial statements include the financial statements of Credicorp and its subsidiaries that are effectively controlled, directly or indirectly (hereinafter, "The Group"). The principal activities of the companies integrating the Group correspond to banking, financial and insurance operations and management of investment funds and brokerage.

The companies that comprise the Group as of December 31, 1998 and 1997, with indication of the percentage of participation owned directly and indirectly by Credicorp as of those dates, as well as other relevant consolidated information are:

<u>Entity</u>	<u>Percentage of participation</u>		<u>Total assets</u>		<u>Total shareholders' equity</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	%	%	US\$000	US\$000	US\$000	US\$000
Banco de Crédito del Perú	90.55	90.50	6,630,022	6,501,279	495,327	489,097
Atlantic Security Holding Corporation	100.00	100.00	858,308	975,345	113,751	119,384
El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros	75.83	75.83	336,743	295,733	97,753	87,604
Inversiones Crédito del Perú S.A.	99.99	99.99	59,694	57,578	10,832	7,037
Banco Tequendama	99.99	99.99	362,895	347,130	45,725	48,609

<u>Entity</u>	<u>Percentage of participation</u>		<u>Total assets</u>		<u>Total shareholders' equity</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
	%	%	US\$000	US\$000	US\$000	US\$000
Banco Capital	100.00	97.00	126,215	52,888	22,396	4,135
Banco de La Paz	97.00	-	52,127	-	14,162	-

The financial statements of Credicorp are maintained in U.S. dollars, which is deemed to represent the functional currency for the Group, and in conformity with International Accounting Standards (IAS).

The consolidated financial statements of BCP and PPS are prepared in Peruvian new soles adjusted to reflect the changes in the purchasing power of the Peruvian currency, in accordance with accounting principles generally accepted in Peru, which are similar to IAS, except for the accounting for inflation and deferred income tax. In accordance with IAS, when the cumulative three-year inflation rate is less than 100% an economy is not considered hyperinflationary, and the use of inflation adjusted financial reporting is no longer appropriate, whereas Peruvian GAAP continues to require the reporting of annual inflation adjusted financial statements. As from 1995 the accumulated inflation rate in Peru for the preceding three-year period was lower than 100%; accordingly, for consolidation purposes and in accordance with IAS, BCP and PPS have not adjusted their consolidated financial statements to reflect the effects of inflation. In addition, in accordance with IAS these entities have recognized the corresponding deferred income tax.

The financial statements of ASH are maintained in U.S. dollars in conformity with IAS.

For consolidated financial statements purposes, the Group followed the purchase method of accounting for the exchange of Credicorp's shares for BCP, ASH and PPS's and for the recording of the acquisitions of Banco de La Paz, Banco Capital and Banco Tequendama referred to in Note 1. The following procedures were applied to prepare the Group's financial statements:

- The historical financial statements of Credicorp prior to the October 20, 1995 share exchange are those of BCP, the predecessor entity, adjusted as necessary to conform to the accounting principles followed by the Group. Financial statements of BCP prior to 1995 were adjusted to conform with IAS and translated into U.S. dollars at the exchange rate of December 31, 1994. Due to the change from hyperinflationary to non-hyperinflationary of the Peruvian economy in 1995, as defined under IAS, the historical Peruvian new sol financial statements of BCP were translated into U.S. dollars applying the methodology described below in the Group's significant accounting principles for consolidated financial statements presentation.
- ASH and PPS have been considered as acquired entities, therefore a new accounting basis for their assets and liabilities was determined, based on their respective fair values as of October 31, 1995.

- The assets and liabilities of Banco de La Paz, Banco Capital and Banco Tequendama have been incorporated at their corresponding estimated fair values on the acquisition dates.
- Goodwill has been established principally as the difference between the reference price for the acquisition of PPS and ASH on the date of the exchange of shares and the corresponding fair value of the consolidated assets and liabilities of such entities, which amounted to US\$24.0 million and US\$19.7 million, respectively. Such goodwill is amortized using the straight-line method over a period of 20 years.

Additionally, during 1996, 1997 and 1998 Credicorp acquired Compañía de Inversiones El Pacífico-Peruano Suiza (a subsidiary of Inversiones Crédito del Perú S.A.), Banco Capital and Banco de La Paz generating a goodwill of US\$6.7 million, US\$2.7 million and US\$4.2 million, respectively, which is being amortized over a 5 year-period.

- All significant intercompany accounts and transactions between the Group's entities have been eliminated in the accompanying consolidated financial statements.
- Minority interest principally represents the participation of the shareholders of BCP and PPS that did not enter into the exchange of shares mentioned in Note 1, and that represents 9.45% and 24.17%, respectively, of those entities as of December 31, 1998 (9.5% and 24.17%, respectively, as of December 31, 1997).

The Group's consolidated net income has been determined as follows:

	<u>For the years ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Consolidated net income of:			
BCP	34,362	91,855	106,106
ASH	14,863	26,568	18,456
PPS	<u>11,078</u>	<u>10,369</u>	<u>9,946</u>
	<u>60,303</u>	<u>128,792</u>	<u>134,508</u>
Less: Minority interest			
BCP	(3,247)	(8,726)	(10,165)
PPS	<u>(2,677)</u>	<u>(2,506)</u>	<u>(2,404)</u>
	<u>(5,924)</u>	<u>(11,232)</u>	<u>(12,569)</u>
Amortization of goodwill			
ASH	(984)	(984)	(984)
PPS	(1,200)	(1,200)	(1,200)
Banco Capital and Banco de La Paz	<u>(558)</u>	<u>-</u>	<u>-</u>
	<u>(2,742)</u>	<u>(2,184)</u>	<u>(2,184)</u>
Other subsidiaries and Credicorp's expenses	<u>(9,541)</u>	<u>(5,316)</u>	<u>(3,606)</u>
Consolidated net income	<u>42,096</u>	<u>110,060</u>	<u>116,149</u>

Significant accounting principles

The most significant accounting principles and policies used for the recording of the Group's operations and in the preparation of the financial statements are as follows:

a) Foreign currency translation -

The functional currency of the Group is the U.S. dollar. The financial statements of Credicorp's subsidiaries that maintain their accounting records in other currencies, have been translated by using the following procedures:

- Monetary assets and liabilities were translated at the free market exchange rate in effect on the balance sheet date.
- Non-monetary assets (including their depreciation or amortization) and equity accounts were translated by using the free market exchange rates on the date of the transactions.
- Income and expense accounts, except for those related to non-monetary assets, were translated at the average exchange rates of the months in which they occurred.

The resulting translation adjustment into U.S. dollars is included in the statement of profit and loss.

b) Recognition of revenues and expenses for banking activities -

Interest income and expenses are recorded on the accrual basis over the period of the related transactions. Commissions on financial services are credited to income when collected, except for the commissions related to the issuance of credit cards, which are recorded on the accrual basis.

When, in management's opinion, the collectibility of the principal of any overdue loan becomes uncertain, the related interest is recognized on a cash basis. When management determines that the financial condition of the borrower has improved to the extent that the principal is deemed collectible, interest accrual accounting is restored.

Other revenues and expenses are generally recorded in the period when they fall due.

c) Recognition of revenues and expenses for insurance activities -

Premiums are earned on a pro-rata basis over the periods of the related contracts. In this regard, a reserve for unearned premiums is recorded representing the unexpired portion of premium coverage to be applied in the following period on the basis of annual renewals.

The allowance for doubtful accounts related to premiums and installments outstanding is determined by management, on the basis of periodical reviews of the clients' portfolio.

Casualty claims are recorded when reported. The incurred but not reported claims (IBNR) are estimated and reflected as a liability, net of recoveries and reinsurance. The IBNR have been

estimated by taking into consideration the arithmetic progression of the percentages computed over the actual figures for the years 1994, 1995, 1996 and 1997. Management considers that the estimated amount is sufficient to cover any liability related to IBNR at December 31, 1998 and 1997.

Policy acquisition costs are deferred and subsequently amortized over the period in which the related premiums are earned.

d) Reserve for loan losses -

The reserve for loan losses is maintained at a level that, in the opinion of management, is sufficient to cover potential losses in the loan portfolio at the balance sheet dates (see Note 6). Periodically, management conducts, in accordance with the regulations and guidelines established by the SBS in Peru and its own criterion, a formal review and analysis of the loan portfolio authorizing the necessary adjustments to the reserve for possible loan losses. The review and analysis also identifies specific clients against whom legal proceedings should be or have been initiated as well as those clients who appear to have financial difficulties. The quality and sufficiency of collaterals and guarantees are also reviewed.

The reserve for loan losses is made in accordance with the economic conditions in the different countries where loans are granted, loan loss experience, management's evaluation of the loan portfolio, and other factors which, in management's opinion, require current recognition in estimating possible loan losses.

e) Leasing transactions-

Lease agreements are accounted for under the "financial method" for purposes of the presentation of the financial statements by which outstanding leasing transactions are recorded as loans.

f) Investment in securities -

Marketable securities are recorded at the lower of cost or market value. Investments available for sale, which include those equity securities that Credicorp and its subsidiaries intend to hold for more than one year and long-term debt securities are recorded at the lower of cost or net realizable value. A provision for unrealized losses on investment is recorded when an impairment is considered permanent, in accordance with Management's criterion and based on the estimated development of these investments. The related interest is recorded when it falls due and dividends when declared.

g) Property, furniture and equipment -

Property, furniture and equipment are recorded at their acquisition cost. The related depreciation is calculated consistently by using the straight-line method at rates deemed sufficient to absorb the cost over the useful lives of the assets. Maintenance and repair costs are charged to profit and loss

and significant renewals and improvements are capitalized. The cost and accumulated depreciation of assets sold or retired are eliminated from the corresponding accounts and the related gain or loss is included in the results of the year.

h) Assets seized through legal action -

Assets seized through legal action, included in Other assets, are valued fundamentally at the lower of the outstanding debt at the date when the assets are seized or its corresponding market value estimated by independent professionals.

i) Intangible assets -

Intangible assets included in Other assets, principally comprise software acquired and are amortized on a straight-line basis, using an annual rate of 20%.

j) Due from customers on acceptances -

Due from customers on acceptances corresponds to accounts receivable from customers for importation and exportation operations, the obligations for which have been accepted by the banks. The obligations that must be assumed by the banks for such operations are recorded as liabilities.

k) Leasing and subordinated bonds issued -

Liabilities arising from the issuance of leasing and subordinated bonds are recorded at their face value and the corresponding interest is recognized in income on the accrual basis. Discounts granted on their issuance are deferred in the consolidated balance sheet and are amortized over the term of the bonds.

l) Provision for employees' severance indemnities -

The provision for employees' severance indemnities comprises all employees' rights assumed. The payments made, which are considered as definitive, are deposited in authorized financial institutions selected by the employees.

m) Deferred taxes -

Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Such deferred tax is determined at rates which are expected to be in force when such differences will be realized.

In Peru, the workers' participation is 5% of taxable income. This participation is considered deductible for income tax purpose.

n) Earnings per share -

Earnings per share are calculated by dividing the net income for the year by the weighted-average number of the shares outstanding during the year, after deducting treasury stock. For the determination of the weighted-average number of the shares outstanding at December 31, 1997, and 1996, the stock dividend of 1998 has been retroactively adjusted (Note 13).

o) Cash and cash equivalents -

Cash and cash equivalents include cash and due from banks and interest bearing deposits with other banks and with an original maturity of less than 90 days.

p) Use of accounting estimates in the preparation of financial statements -

The preparation of financial statements requires the Group's management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the exposition of contingent liabilities at the date of the financial statements as well as the income and expenses for the reported years. Assets and liabilities are recognized in the financial statements when it is probable that any future economic benefit associated with the item will flow to or from the Group and the item has a cost or value that can be measured with reliability. If in the future such estimates and assumptions, that are based on management's best judgement at the date of the financial statements, are modified because of the actual circumstances, the original estimates and assumptions will be appropriately modified in the year in which such changes occur.

q) Financial statements as of December 31, 1997 -

The financial statements as of December 31, 1997 include some reclassifications for comparative purposes.

r) New accounting standards issued by the International Accounting Standards Committee (IASC) -

IAS 36 - Impairment of assets was issued in July 1998 and is effective for fiscal years beginning on or after July 1, 1999. This standard requires that the carrying amounts of assets do not exceed their recoverable amounts. The recoverable amount is the higher of an asset's net selling price and its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. An impairment loss should be recognized in the income statement for assets carried at cost and treated as a revaluation decrease for assets carried at revalued amount. This standard should be applied in accounting for impairment of all assets other than inventories, assets arising from construction contracts, deferred tax assets, assets arising from employees' pension benefits and assets related to financial instruments.

IAS 37 - Provisions, contingent liabilities and contingent assets was issued in September 1998 and is effective for fiscal years beginning on or after July 1, 1999. This standard requires that a

provision will be recognized when a present obligation exists as result of a past event. In addition, in accordance with such standard, contingent assets and contingent liabilities should be not recorded but should be disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

IAS 38 - Intangible assets, was issued in October 1998 and is effective for fiscal years beginning on or after July 1, 1999. This standard requires that an intangible asset should be recognized only if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and if the cost of the asset can be measured reliably. In addition, this standard does not allow that internally generated goodwill is recognized as intangible asset.

The Group considers that the adoption of these standards will not have a significant effect on its financial position and results of operation.

3 FOREIGN CURRENCIES AND EXCHANGE RISK EXPOSURE

Foreign currency transactions are made at the free market exchange rates of the countries where Credicorp's subsidiaries are established.

As of December 31, the Group's assets and liabilities by currencies are as follows:

	1998			1997		
	U.S. dollars US\$000	Peruvian new sol US\$000	Other US\$000	U.S. dollars US\$000	Peruvian new sol US\$000	Other US\$000
Assets:						
Cash and due from banks	1,800,772	111,246	57,758	1,595,442	149,198	63,528
Marketable securities	523,635	109,400	45,936	378,776	172,468	55,873
Loans	3,704,587	895,216	261,105	3,551,572	595,283	217,116
Other assets	<u>161,850</u>	<u>247,597</u>	<u>53,334</u>	<u>277,930</u>	<u>110,878</u>	<u>8,157</u>
	<u>6,190,844</u>	<u>1,363,459</u>	<u>418,133</u>	<u>5,803,720</u>	<u>1,027,827</u>	<u>344,674</u>
Liabilities						
Deposits and obligations	4,559,077	1,086,863	259,629	4,193,853	968,964	269,436
Due to banks and correspondents	934,809	36,135	102,590	864,308	52,741	46,312
Other liabilities	<u>222,804</u>	<u>355,237</u>	<u>44,831</u>	<u>306,037</u>	<u>342,165</u>	<u>16,237</u>
	<u>5,716,690</u>	<u>1,478,235</u>	<u>407,050</u>	<u>5,364,198</u>	<u>1,363,870</u>	<u>331,985</u>
Net position	<u>474,154</u>	<u>(114,776)</u>	<u>11,083</u>	<u>439,522</u>	<u>(336,043)</u>	<u>12,689</u>

As of December 31, 1998, the free market buying and selling exchange rates published by the SBS were S/.3.14 and S/.3.159 per US\$1, respectively (S/.2.726 and S/.2.734 per US\$1, respectively, as of December 31, 1997).

4 *CASH AND DUE FROM BANKS*

As of December 31, 1998 and 1997, cash and due from banks includes approximately US\$1,127 million and US\$1,296 million, respectively, related to the legal reserve that banks in Peru are required to maintain as guarantee for the deposits received from third parties. This legal reserve can be maintained in the banks' vaults or deposited in the Central Bank of Peru (BCRP). The deposits in Peruvian new soles are subject to a minimum cash reserve of 7% and the deposits in foreign currency are subject to a minimum cash reserve of 7% plus an additional cash reserve which averaged 32% (37% of additional cash reserve in 1997), which earn interest at a rate established by the BCRP. The additional cash reserve on the increase of the deposits as from December 1998 is 20%.

5 *MARKETABLE SECURITIES*

At December 31, this account comprises:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Bonds	87,953	201,792
Listed equity securities	37,894	72,775
Non-listed equity securities	35,715	997
Investment in Peruvian foreign debt	1,126	6,491
Investment in foreign debt of other countries	23,470	29,271
Peruvian Central Bank Certificates	15,646	130,315
Certificates of deposits issued by Central Banks of other countries	51,538	19,743
Negotiable certificates of deposits	17,890	-
Other investments	<u>78,505</u>	<u>101,379</u>
	349,737	562,763
Less - Reserve for unrealized losses	(7,444)	(25)
	<u>342,293</u>	<u>562,738</u>

Bonds comprise leasing, subordinated and corporate bonds, which have been acquired at prices and rates prevailing in the market at the date of purchase. The annual interest rates are freely negotiated considering the rates prevailing in the markets where the Group's subsidiaries operate.

Peruvian Central Bank Certificates are short-term marketable bearer bonds which have been acquired through public auctions at interest rates offered by financial institutions. The annual interest rates vary from 12% to 13.75% (11.05% to 13.70%, in 1997) which are determined by the BCRP at each auction.

As of December 31, the reconciliation between the book value and the market value of marketable securities is as follows:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Book value	342,293	562,738
Unrealized gains	9,562	14,248
Unrealized losses	(10,179)	(4,855)
Estimated market value	<u>341,676</u>	<u>572,131</u>

6 LOANS

a) At December, 31 this account comprises:

	<u>1998</u> <u>US\$000</u>	<u>%</u>	<u>1997</u> <u>US\$000</u>	<u>%</u>
Loans	3,645,065	75	3,112,213	71
Discounted notes	525,700	11	610,467	14
Advances and overdrafts	265,656	6	332,275	8
Leasing transactions	302,062	6	262,381	6
Factoring transactions	38,529	1	67,827	2
Refinanced loans	84,088	2	64,252	1
Past due loans (see paragraph d)	<u>306,180</u>	<u>6</u>	<u>181,238</u>	<u>4</u>
	5,167,280	107	4,630,653	106
Less unearned interest	(62,830)	(1)	(56,872)	(1)
	5,104,450	106	4,573,781	105
Less reserve for loan losses	(270,082)	(6)	(209,810)	(5)
	<u>4,834,368</u>	<u>100</u>	<u>4,363,971</u>	<u>100</u>

Interest rates on loans are set considering the rates prevailing in the markets where the Group's subsidiaries operate.

b) At December 31, the credit risk classification of the Group's loan portfolio is as follows:

Classifi- cation	<u>1998</u>				<u>1997</u>							
	<u>Direct</u> <u>credits</u> <u>US\$000</u>	<u>%</u>	<u>Indirect</u> <u>credits</u> <u>US\$000</u>	<u>%</u>	<u>Total</u> <u>US\$000</u>	<u>%</u>	<u>Direct</u> <u>credits</u> <u>US\$000</u>	<u>%</u>	<u>Indirect</u> <u>credits</u> <u>US\$000</u>	<u>%</u>	<u>Total</u> <u>US\$000</u>	<u>%</u>
Normal	3,892,883	76	991,257	92	4,884,140	79	3,570,557	78	1,020,631	94	4,591,188	82
Potential problems	566,411	11	59,809	6	626,220	10	526,049	12	55,572	5	581,621	10
Substandard	304,327	6	14,995	1	319,322	5	232,021	5	11,785	1	243,806	4
Doubtful	235,627	5	4,656	1	240,283	4	177,078	4	1,571	-	178,649	3
Loss	<u>105,202</u>	<u>2</u>	<u>2,196</u>	<u>-</u>	<u>107,398</u>	<u>2</u>	<u>68,076</u>	<u>1</u>	<u>1,786</u>	<u>-</u>	<u>69,862</u>	<u>1</u>
	<u>5,104,450</u>	<u>100</u>	<u>1,072,913</u>	<u>100</u>	<u>6,177,363</u>	<u>100</u>	<u>4,573,781</u>	<u>100</u>	<u>1,091,345</u>	<u>100</u>	<u>5,665,126</u>	<u>100</u>

The indirect credit portfolio is described in Note 15.

- c) The direct credit portfolio by industry as of December 31, is as follows:

	<u>1998</u>		<u>1997</u>	
	US\$000	%	US\$000	%
Manufacturing	1,487,158	29	1,380,951	30
Commerce	986,227	19	1,020,394	22
Fishing	74,333	2	41,285	1
Agriculture	203,844	4	255,165	6
Mining	316,928	6	240,706	5
Construction	182,799	3	136,328	3
Financial services	232,056	5	97,865	2
Communication, storage and transportation	352,193	7	473,391	10
Realty business and leasing services	233,141	5	188,963	4
Utilities	76,493	1	62,463	2
Education, health and other services	157,004	3	263,566	6
Consumer loans	506,271	10	320,136	7
Other	<u>296,003</u>	<u>6</u>	<u>92,568</u>	<u>2</u>
	<u>5,104,450</u>	<u>100</u>	<u>4,573,781</u>	<u>100</u>

- d) In 1998, the effects of the climatological phenomenon called “El Niño” and the Asian crisis had a profound impact on the Peruvian economy, affecting seriously industrial production, food distribution, commerce and the extractive sectors, such as, fishing, agriculture, mining and petroleum. This situation gave rise to an impairment of the credit portfolio of Peruvian financial institutions, which is reflected in a significant increase of past due loans as well as a significant charge for reserves for loan losses to the results of the year for approximately US\$170.6 million (see paragraph e).

At December 31, past due loans and in judicial collection are as follows:

	<u>1998</u>		<u>1997</u>	
	US\$000	%	US\$000	%
Due up to 4 months	160,282	52	66,133	37
Due more than 4 months	12,532	4	7,814	4
In judicial collection	<u>133,366</u>	<u>44</u>	<u>107,291</u>	<u>59</u>
	<u>306,180</u>	<u>100</u>	<u>181,238</u>	<u>100</u>

In accordance with the Group’s accounting policies, interest on past due loans is recorded when collected. As of December 31, 1998 and 1997, the gross interest that would have been recorded on these loans in accordance with their original terms and conditions, amounted to approximately US\$66.7 million and US\$62.1 million, respectively.

- e) The changes in the reserve for loan losses are summarized as follows:

	<u>Specific</u> <u>US\$000</u>	<u>Generic</u> <u>US\$000</u>	<u>Total</u> <u>US\$000</u>
Balances as of January 1, 1997	108,396	52,205	160,601
Provision for the year	94,975	17,816	112,791
Recoveries	(23,105)	(21)	(23,126)
Transfers	44,624	(44,624)	-
Write-offs	(39,780)	-	(39,780)
Other	(1,799)	1,123	(676)
Balances as of December 31, 1997	183,311	26,499	209,810
Provision for the year	164,234	15,958	180,192
Credit portfolio purchased	11,236	-	11,236
Recoveries	(8,252)	(1,380)	(9,632)
Transfers	3,447	(3,447)	-
Write-offs	(111,644)	(8,350)	(119,994)
Other	(258)	(1,272)	(1,530)
Balances as of December 31, 1998	<u>242,074</u>	<u>28,008</u>	<u>270,082</u>

The Group recognizes possible losses on loans through this reserve. The reserve is charged to income in accordance with the policy described in Note 2.

On August 20, 1997, the SBS issued Resolution No.572-97, that modifies the criteria for the evaluation and classification of the direct and indirect credit portfolio in Peru, requiring the separate classification of commercial credits, credits to micro-businesses, consumer credits and mortgages.

In addition, this Resolution requires that the evaluation of the credit portfolio is made considering mainly the payment capabilities of the debtors, defined by their cash flows and the grade of compliance with their obligations. Guarantees that secure the loans granted are considered as complementary for the evaluation.

The afore-mentioned Resolution requires that financial institutions should constitute, as from 1997, a generic provision of 0.20% on the total responsibility of each debtor classified as "normal credit" as well as a schedule of percentages of provisions, that should be gradually implemented by the financial institutions until June 2000, according to the credit granted, as follows:

- i) Commercial credits, credits to micro-businesses and mortgages:

<u>Risk Category</u>	<u>Without guarantees</u>				<u>With preferential guarantees</u>			
	<u>Percentages established for</u>				<u>Percentages established for</u>			
	<u>March</u>	<u>December</u>	<u>June</u>	<u>June</u>	<u>March</u>	<u>December</u>	<u>June</u>	<u>June</u>
	<u>1998</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>1998</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Normal	0.30	0.60	0.80	1.00	0.30	0.60	0.80	1.00
Potential problems	2.00	3.00	4.00	5.00	1.00	1.50	2.00	2.50
Substandard	25.00	25.00	25.00	25.00	5.00	8.00	10.00	12.50
Doubtful	57.00	58.00	59.00	60.00	27.00	28.00	29.00	30.00
Loss	100.00	100.00	100.00	100.00	50.00	54.00	58.00	60.00

Preferential guarantees are those that are easily convertible into cash in order to cancel the guaranteed loan without significant costs, have adequate legal documentation, do not have previous obligations that could decrease their values or prevent the creditor to acquire title, and that their values are permanently updated.

ii) Consumer credits:

<u>Risk category</u>	<u>Percentages of provision for</u>			
	<u>March</u>	<u>December</u>		<u>June</u>
	<u>1998</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Normal	0.30	0.60	0.80	1.00
Potential problems	3.00	3.50	4.00	5.00
Substandard	30.00	30.00	30.00	30.00
Doubtful	60.00	60.00	60.00	60.00
Loss	100.00	100.00	100.00	100.00

As of December 31, 1998 and 1997, BCP has applied the percentages required for December 1998 and March 1998, respectively.

Management considers that the provision recorded at December 31, 1998 and 1997 is sufficient to cover any eventual loss on loans in the process of collection.

f) Loans are secured by guarantees granted by customers comprising mortgages, performance bonds, securities and industrial and commercial liens.

g) As of December 31, the loans have the following maturities:

	<u>1998</u>	<u>1997</u>
	<u>US\$000</u>	<u>US\$000</u>
Due within 3 months	2,233,560	2,373,351
3 months to a year	1,060,115	832,190
One year to 5 years	1,167,758	939,088
Over 5 years	336,837	247,914
Past due loans	<u>306,180</u>	<u>181,238</u>
	<u>5,104,450</u>	<u>4,573,781</u>

7 INVESTMENTS IN SECURITIES AVAILABLE FOR SALE

Investments in this category comprise securities acquired for long-term holding purposes. This caption is reported as indicated in Note 2 - f) and comprises:

<u>Description</u>	<u>1998</u>				<u>1997</u>			
	<u>Book Value</u> <u>US\$000</u>	<u>Unrealized gains</u> <u>US\$000</u>	<u>Unrealized losses</u> <u>US\$000</u>	<u>Estimated market value</u> <u>US\$000</u>	<u>Book Value</u> <u>US\$000</u>	<u>Unrealized gains</u> <u>US\$000</u>	<u>Unrealized losses</u> <u>US\$000</u>	<u>Estimated market value</u> <u>US\$000</u>
Listed equity securities	190,666	7,557	(31,633)	166,590	148,581	6,304	(13,134)	141,751
Non-listed equity securities	54,579	-	-	54,579	59,789	3,171	-	62,960
U.S treasury bonds	2,980	-	-	2,980	2,968	-	-	2,968
Others	<u>23,771</u>	<u>-</u>	<u>(3,363)</u>	<u>20,408</u>	<u>36,415</u>	<u>-</u>	<u>-</u>	<u>36,415</u>
	<u>271,996</u>	<u>7,557</u>	<u>(34,996)</u>	<u>244,557</u>	<u>247,753</u>	<u>9,475</u>	<u>(13,134)</u>	<u>244,094</u>

U.S. treasury bonds have maturities between one and five years.

8 *PROPERTY, FURNITURE AND EQUIPMENT AND ACCUMULATED DEPRECIATION*

At December 31, this account comprises:

	<u>1998</u>			<u>1997</u>
	<u>Cost</u> <u>US\$000</u>	<u>Accumulated depreciation</u> <u>US\$000</u>	<u>Net book value</u> <u>US\$000</u>	<u>Net book value</u> <u>US\$000</u>
Land	29,809	-	29,809	26,884
Buildings and other constructions	248,690	88,494	160,196	152,489
Installations	45,768	21,053	24,715	16,355
Furniture and fixtures	126,752	69,576	57,176	65,314
Equipment	41,904	29,835	12,069	10,129
Vehicles	<u>9,743</u>	<u>2,923</u>	<u>6,820</u>	<u>2,030</u>
	<u>502,666</u>	<u>211,881</u>	<u>290,785</u>	<u>273,201</u>

The annual depreciation rates used are: buildings and other constructions 3%, installations and furniture and fixtures and equipment 10% and 20% and vehicles 20%.

Banks, financial institutions and insurance companies located in Peru are not allowed to pledge their fixed assets, except for those acquired through lease transactions that guarantee the bonds issued to finance these operations.

9 *OTHER ASSETS AND OTHER LIABILITIES*

At December 31, this account comprises:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Other assets		
Interest, commissions and accounts receivable	156,667	113,603
Operations in progress	98,633	146,150
Deferred expenses	56,933	40,273
Intangibles, net	19,384	18,934
Assets seized through legal actions	51,563	23,185
Other	<u>17,973</u>	<u>21,895</u>
	<u>401,153</u>	<u>364,040</u>
 Other liabilities		
Interest and other accounts payable	126,553	68,637
Taxes, salaries and other personnel expenses payable	61,454	85,683
Operations in progress	67,888	136,227
Deferred tax liabilities (see Note 14)	7,929	4,737
Other	<u>17,495</u>	<u>8,949</u>
	<u>281,319</u>	<u>304,233</u>

- a) Operations in progress are related to transactions realized during the last days of the year, which will be transferred to their final balance sheet accounts in the following month. These transactions do not affect the Group's income.
- b) At December 31, 1998 and 1997 the caption Assets seized through legal actions include land, buildings and machinery and equipment received in payment of judicial collection credits, which have been recorded at their corresponding values determined on basis of technical appraisals made by independent professionals.

In 1998 and 1997 the reserve for impairment of assets seized through legal actions amounted to US\$10.2 million and US\$4.5 million, respectively, which are recorded in the caption Other expenses in the consolidated statement of income.

10 DEPOSITS AND OBLIGATIONS

a) At December 31, this account comprises:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Non-interest bearing deposits and obligations:		
In Peru	466,889	332,157
In other countries	<u>98,554</u>	<u>219,234</u>
	<u>565,443</u>	<u>551,391</u>
Interest bearing deposits and obligations:		
In Peru	3,407,539	4,035,917
In other countries	<u>1,511,060</u>	<u>844,945</u>
	<u>4,918,599</u>	<u>4,880,862</u>
Total	<u>5,484,042</u>	<u>5,432,253</u>

According to the Group's policies, during 1998 and 1997, interest on demand and saving deposits and obligations were accrued using an interest rate scale determined on the average deposits maintained. Balances below certain limits previously established for each product were not entitled to interest.

b) As of December 31, 1998 and 1997, the balance of deposits and obligations comprises:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Saving deposits	1,696,432	1,829,448
Time deposits	1,941,888	1,516,350
Demand deposits	960,141	1,119,036
Severance indemnity deposits	570,529	567,649
Foreign currency bank certificates	216,374	271,387
Leasing bonds	<u>98,678</u>	<u>128,383</u>
	<u>5,484,042</u>	<u>5,432,253</u>

c) As of December 31, 1998 and 1997 the total amount of the individual time deposits and bank certificates in excess of US\$100,000 are approximately US\$1,353.8 million and US\$58.6 million, respectively (US\$1,376.4 million and US\$75.5 million, respectively as of December 31, 1997).

d) As of December 31, deposits and obligations have the following scheduled maturities:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Due within 3 months	4,604,711	4,986,918
3 months to a year	567,569	150,797
One year to 5 years	306,836	294,538
Over 5 years	4,926	-
	<u>5,484,042</u>	<u>5,432,253</u>

11 DUE TO BANKS AND CORRESPONDENTS

At December 31, this account comprises:

	<u>1998</u>			<u>1997</u>		
	<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>	<u>Short-term</u>	<u>Long-term</u>	<u>Total</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Due to banks and correspondents	598,280	280,821	879,101	701,439	142,850	844,289
Promotional credit lines	114,132	54,270	168,402	25,608	65,198	90,806
Loan from an international fund	-	-	-	5,422	22,844	28,266
	<u>712,412</u>	<u>335,091</u>	<u>1,047,503</u>	<u>732,469</u>	<u>230,892</u>	<u>963,361</u>

The liabilities with banks and correspondents bear interest at international market rates, have maturities between 1999 and 2005 and have no specific guarantees, except for amounts due to the Swiss Bank Corporation and The West Merchant Bank Limited, which are guaranteed by shares of subsidiaries. In addition, the credit agreements include certain covenants related to compliance of financial ratios and other specific conditions which Credicorp considers have been fully complied with. The balance of this account corresponds to the following operations:

- Bank loans obtained by the Group principally for foreign trade financing, working capital or restructuring of debts.
- Amount owed originating from a forward sale agreement signed with West Merchant Bank Limited in August 1998, by which Credicorp agreed to pay the debts assumed by Mickleton Corporation (entity incorporated in the Virgin Islands) for up-to US\$50 million. The inflow of the resources corresponding to the debt assumed by Mickleton Corporation was received directly by Credicorp.
- Amount owed originating from a securitization operation, realized in November 1998 for up-to US\$100 million by Banco de Crédito Overseas Limited, for the collections of the future inflows of BCP, corresponds to the consumptions and cash advances made in Peru through the credit cards of Visa International issued by foreign banks. In this operation, Bankers Trust Company of New York acted as trustee of the securitization certificates. This operation will be paid for through the

transfers of funds, corresponding to the future inflows to be received by BCP from Visa International, which will be deposited directly by Visa International to a special account managed by Bankers Trust Company.

In addition, BCP has signed an insurance policy with MBIA Insurance Corporation of New York, which guarantees the future cash inflows to pay the quarterly payments with maturities until November 2005.

Promotional credit lines represent loans granted to BCP by Corporacion Andina de Fomento and International Finance Corporation, for promoting development in Peru. These loans include covenants specifying the use of funds, financial conditions that the borrower must maintain and other administrative matters.

As of December 31, due to banks and correspondents have the following maturities:

	<u>1998</u> <u>US\$000</u>	<u>1997</u> <u>US\$000</u>
Due within 3 months	131,858	367,952
3 months to a year	580,554	364,517
One year to 5 years	329,130	228,149
Over 5 years	<u>5,961</u>	<u>2,743</u>
	<u>1,047,503</u>	<u>963,361</u>

12 REINSURANCE PAYABLE

In the ordinary course of its business PPS, the Credicorp's subsidiary engaged in insurance activities, transfers insurance risk to other insurance companies to share the risk associated with its insurance contracts and to limit the potential losses arising from significant coverage. PPS is ultimately responsible for the payment of claims to the policyholder if the re-insurer is unable to meet its obligations.

Reinsurance includes quota sharing, excess of loss and facultative insurance. Amounts recoverable from re-insurers are estimated on a basis consistent with the associated claim liabilities and are presented as a component of reinsurance assets.

13 SHAREHOLDERS' EQUITY

a) Capital stock -

As of December 31, 1998, the capital stock is represented by 94,382,317 outstanding common shares (85,801,738 as of December 31, 1997), with a par value of US\$5 each one.

In 1998, Credicorp declared stock dividends and dividends in cash for approximately US\$36.8 million and US\$33.1 million, respectively (US\$61.3 million and US\$30.7 million, respectively, as of December 31, 1997).

b) Treasury stock -

Treasury stock corresponds to the nominal value of Credicorp's shares owned by the Group companies, which amount to 13,378,733 shares at December 31, 1998 (12,214,503 shares at December 31, 1997). The difference between the acquisition cost of US\$176.0 million and their par value of US\$67.2 million (US\$169.9 million and US\$61.1 million, respectively, as of December 31, 1997) is recorded as a capital surplus.

c) Legal reserves -

In accordance with the law that rules the financial and insurance activity, BCP and PPS are required to form a reserve of at least 35% of its paid-in capital through annual transfers of at least 10% of their net income.

Additionally, PPS must maintain a legal guarantee reserve equivalent to 35% of its equity of solvency, as defined in such law, as a guarantee fund. This reserve should be formed in a period not exceeding 3 years as from December 9, 1996.

As of December 31, 1998 legal reserves amounted to approximately US\$139.7 million for BCP and US\$11.1 million for PPS (US\$103.6 million and US\$7.5 million, respectively, as of December 31, 1997).

14 *INCOME TAXES*

a) Credicorp Ltd. is not subject to any type of income taxes, nor taxes on capital gains, equity or property.

The Peruvian subsidiaries are subject to corporate taxation on income under the Peruvian Tax system. The statutory income tax rate payable in Peru is 30% of taxable income.

In addition until April 1997, such subsidiaries were subject to an alternative minimum tax of 1.5%, calculated, in the case of banking entities on 50% of their assets net of depreciation, amortization and the legal reserve required to be held by the banks in the BCRP. As from May 1997, such subsidiaries are subject to the extraordinary tax on net assets, calculated by applying 0.5% (0.2% in 1999) on the assets adjusted for the effects of inflation, deducting the items considered non-taxable according to the regulations for the minimum income tax. The payments for such tax are considered as credit against the annual income tax.

ASH and its subsidiaries are not subject to taxes in the Cayman Islands nor Panama. For the years ended December 31, 1998 and 1997, no taxable income was generated for its operations in the United States of America.

A reconciliation of the differences between the statutory income tax rate and the effective tax rate for the Group is shown as follows:

	<u>1998</u> %	<u>1997</u> %	<u>1996</u> %
Peruvian statutory tax rate	30	30	30
Increase (decrease) in the statutory tax rate due to:			
i) Decrease of the original rate arising from net income of subsidiaries not domiciled in Peru	(5)	(6)	(3)
ii) Non-taxable costs and income, net	<u>9</u>	<u>2</u>	<u>(2)</u>
Effective income tax rate	<u>34</u>	<u>26</u>	<u>25</u>

- b) In 1998 and 1997 the deferred income tax has been calculated on all temporary differences applied at a combined rate of 33.5%. Such combined rate is determined considering that the workers' participation is considered deductible for income tax purpose.

The income tax expense analysis as of December 31, 1998 and 1997, is as follows:

	<u>1998</u> US\$000	<u>1997</u> US\$000	<u>1996</u> US\$000
Current:			
Peruvian	21,373	34,888	45,115
In other countries	<u>1,024</u>	<u>1,555</u>	<u>101</u>
	22,397	36,443	45,216
Deferred:			
Peruvian	<u>3,192</u>	<u>6,770</u>	<u>(2,652)</u>
Total	<u>25,589</u>	<u>43,213</u>	<u>42,564</u>

The Group's deferred tax asset arises from the generic provisions for sundry risk and for loan losses. In accordance with Peruvian tax regulations, generic provisions are not deductible for income tax purposes until transferred to specific provisions; therefore, the Group has recorded an accumulated deferred tax asset (including the effect of the workers' participation) to reflect the future tax benefit of the deduction of these provisions.

The Group's deferred tax liability arises principally from the depreciation of some buildings of BCP and PPS that is not acceptable for tax purposes and from leasing operations.

The following table shows a summary of the Group's deferred income taxes:

	(Debit)		(Debit)/		(Debit)/		
	<i>Balances</i>	<i>credit</i>	<i>Balances</i>	<i>credit</i>	<i>Balances</i>	<i>credit</i>	<i>Balances</i>
<u>Deferred income tax</u>	<u>01.01.96</u>	<u>income</u>	<u>31.12.96</u>	<u>income</u>	<u>31.12.97</u>	<u>income</u>	<u>31.12.98</u>
	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
<i>Asset</i>							
<i>Reserve for loan losses</i>	<i>11,213</i>	<i>2,163</i>	<i>13,376</i>	<i>(9,671)</i>	<i>3,705</i>	<i>2,231</i>	<i>5,936</i>
Reserve for sundry risk	<u>1,105</u>	<u>3,156</u>	<u>4,261</u>	<u>2,949</u>	<u>7,210</u>	<u>3,842</u>	<u>11,052</u>
		<u>12,318</u>	<u>5,319</u>	<u>17,637</u>	<u>6,722</u>	<u>10,915</u>	<u>6,073</u>
	16,988						
<i>Liability</i>							
Fixed assets, net	(12,020)	69	(11,951)	2,239	(9,712)	710	(9,002)
Intangibles	-	(4,202)	(4,202)	(383)	(4,585)	(855)	(5,440)
Leasing operations	(<u>917</u>)	<u>1,466</u>	<u>549</u>	(<u>1,904</u>)	(<u>1,355</u>)	(<u>9,120</u>)	(<u>10,475</u>)
	(<u>12,937</u>)	(<u>2,667</u>)	(<u>15,604</u>)	(<u>48</u>)	(<u>15,652</u>)	(<u>9,265</u>)	(<u>24,917</u>)
<i>Net deferred income tax</i>							
assets (liabilities)	(<u>619</u>)	<u>2,652</u>	<u>2,033</u>	(<u>6,770</u>)	(<u>4,737</u>)	(<u>3,192</u>)	(<u>7,929</u>)

- c) The Peruvian tax authorities have the right to review and, if necessary, amend the annual tax returns of the Peruvian subsidiaries. Fiscal years 1994 through 1998, inclusive, are pending review by the tax authorities. Additional tax arising as a result of examination by the tax authorities will be charged to income of the year when such tax is determined. At present, it is not possible to estimate the adjustments that the tax authorities may determine. However, in the opinion of the Board of Directors and management, it is not expected that any additional assessments will be determined in amounts considered significant to the consolidated financial statements.

15 OFF-BALANCE SHEET ACCOUNTS

A breakdown of the off-balance sheet accounts is as follows:

	<u>At December 31,</u>	
	<u>1998</u>	<u>1997</u>
	US\$000	US\$000
Contingent liabilities-		
Guarantees and performance bonds	633,620	713,053
Export letters of credit	81,309	31,282
Import letters of credit and other	<u>357,984</u>	<u>347,010</u>
	<u>1,072,913</u>	<u>1,091,345</u>
Other off-balance sheet accounts-		
Collateral accepted and guarantees received	4,344,199	3,205,312
Collection on behalf of third parties	2,956,998	3,153,495
Securities in custody	3,100,896	2,104,635
Leasing transactions	523,745	306,316
Assigned value of goods in trusteeship	416,662	598,135
Tax value of assets	247,877	297,136

Other	<u>1,721,956</u>	<u>1,098,483</u>
	<u>13,312,333</u>	<u>10,763,512</u>
Total	<u>14,385,246</u>	<u>11,854,857</u>

The balance of the caption Collateral accepted and guarantees received, represents collateral received recorded at the agreed value as of the date of the loan contract. This balance does not necessarily represent the fair market-value of the collateral maintained by the Group.

In the normal course of its business, the Group's banking subsidiaries are party to transactions with off-balance sheet risk. These transactions expose the Group's banking subsidiaries to credit risk in addition to the amounts recognized in the balance sheet.

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. Exposure to credit losses under commitments to extend credit, export and import letters of credit and guarantees is represented by the contractual amount of these instruments. The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments, including the requirement to obtain collateral to support off-balance sheet financial instruments when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, securities or other assets.

Since many of the off-balance sheet financial instruments are expected to expire without being called upon, the total commitment amounts do not necessarily represent future cash requirements.

Export and import letters of credit and guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. Export and import letters of credit are primarily issued as credit enhancements for overseas commercial transaction. Risks associated with these credits are reduced by participation of third parties.

Except for foreign currency forward commitments, the Group does not enter into other agreements, generally described as "derivative" transactions, including interest rate swaps, currency swaps or options. Foreign exchange forward contracts are agreements for future delivery of money market instruments in which the seller agrees to make delivery at a specified future date of an instrument, at a specified price or yield. Risk arises from the possible inability of counterparties to meet the terms of the contracts and from fluctuations in exchange rates. As of December 31, 1998, the notional amounts of the outstanding contracts is approximately US\$320.6 million (US\$211.0 million as of December 31, 1997), which have maturities for periods less than one year. Such contracts are signed solely to serve customer needs and the exchange risk is totally hedged with other operations.

Management does not anticipate that any material loss will arise from its existing commitments and contingencies.

In addition, as of December 31, 1998 the net equity of the investment mutual funds managed by subsidiaries of the Group and the assigned values to trusteeship amount to approximately US\$202 million and US\$416.7 million, respectively (US\$321 million and US\$598.1 million, respectively, as of December 31, 1997).

16 FINANCIAL STATEMENTS OF CREDICORP (PARENT COMPANY) AND BANCO DE CREDITO DEL PERU AND SUBSIDIARIES

The following summarizes the major categories of Credicorp Ltd.'s non-consolidated financial statements as of December 31, 1998 and 1997. The following also presents the consolidated financial statements of Banco de Crédito del Perú and its subsidiaries prepared in accordance with Peruvian GAAP under the format required by the US Securities and Exchange Commission under Article 9 of Regulation S-X, as of December 31, 1998 and 1997 and for the three years ended as of December 31, 1998; which statements have been adjusted by inflation at that date, and then translated into U.S. dollars following the methodology described in Note 2.

Credicorp Ltd.

Statement of income

	For the years ended December 31,		
	1998	1997	1996
	US\$000	US\$000	US\$000
Participation in the profits of subsidiaries	52,553	117,584	120,315
Amortization of goodwill	(2,742)	(2,184)	(2,184)
Other expenses, net	(7,715)	(5,340)	(1,982)
Net income	<u>42,096</u>	<u>110,060</u>	<u>116,149</u>

Balance Sheet

ASSETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	As of December 31,			As of December 31,	
	1998	1997		1998	1997
	US\$000	US\$000		US\$000	US\$000
Deposit in banks	327	-	Due to subsidiaries	-	30,700
Investments in subsidiaries	806,711	768,305	Other liabilities	<u>100,404</u>	<u>46,521</u>
			Total liabilities	<u>100,404</u>	<u>77,221</u>
Other assets	3,223	11,297	Common shares	471,912	429,009
			Treasury stock	(67,173)	(61,066)
			Capital surplus	227,438	227,438
Goodwill	<u>42,530</u>	<u>41,023</u>	Retained earnings	<u>120,210</u>	<u>148,023</u>
			Shareholders' equity	<u>752,387</u>	<u>743,404</u>
Total assets	<u>852,791</u>	<u>820,625</u>	Total liabilities and shareholders' equity	<u>852,791</u>	<u>820,625</u>

Banco de Crédito del Perú and its subsidiaries

Statement of income

	For the years ended December 31,			
	1998		1997	1996
	S/.000	US\$000	US\$000	US\$000
Interest income				
Loans	1,855,875	618,667	589,494	527,239
Deposits in Central Bank	168,948	56,302	55,939	41,711
Deposits in other banks	44,001	14,624	4,617	19,269
Investments securities	82,277	26,178	20,795	13,176
Dividends	7,087	2,255	1,967	2,032
Total interest income	<u>2,158,188</u>	<u>718,026</u>	<u>672,812</u>	<u>603,427</u>
Interest expenses				
Demand deposits	97,022	32,170	26,954	17,942
Saving deposits	212,867	70,581	85,163	82,230
Time deposits	566,688	187,899	143,561	126,710
Borrowing from other financial institutions	203,869	67,751	58,401	60,205
Other	43,769	14,754	16,032	13,287
Total interest expenses	<u>1,124,215</u>	<u>373,155</u>	<u>330,111</u>	<u>300,374</u>
Net gain from exposure to inflation	138,785	-	-	-
Net interest income	<u>1,172,758</u>	<u>344,871</u>	<u>342,701</u>	<u>303,053</u>
Provision for loan losses, net of recoveries	<u>508,516</u>	<u>168,667</u>	<u>79,928</u>	<u>57,730</u>
Net interest income after provision for doubtful loans	<u>664,242</u>	<u>176,204</u>	<u>262,773</u>	<u>245,323</u>
Other income				
Fees and commissions from banking services	381,617	132,715	137,214	118,502
Net (loss) gain from sales of securities	(9,324)	(3,858)	12,720	7,092
Net gain on foreign exchange transactions	92,545	31,444	25,745	23,951
Other income	97,666	36,373	26,678	24,848
	<u>562,504</u>	<u>196,674</u>	<u>202,357</u>	<u>174,393</u>
Other expenses				
Salaries and employees benefits	429,353	144,168	157,115	138,026
General and administrative expenses	346,763	115,875	124,673	104,965
Depreciation y amortization	90,967	31,031	28,773	23,015
Taxes other than income tax	37,675	12,421	12,672	11,901
Other	83,930	36,875	14,612	4,908
	<u>988,688</u>	<u>340,370</u>	<u>337,845</u>	<u>282,815</u>
Income before income tax	238,058	32,508	127,285	136,901
Translation gain	-	24,661	4,327	11,686
Income tax	51,448	17,921	31,606	42,927
Net income	<u>186,610</u>	<u>39,248</u>	<u>100,006</u>	<u>105,660</u>

	As of December 31,		
	1998		1997
	S/.000	US\$000	US\$000
Balance sheet:			
Assets			
Cash and due from banks	718,330	229,251	280,764
Interest bearing deposits in other banks	4,007,960	1,280,393	1,375,384
Marketable securities	437,893	153,953	387,457
Investment securities available for sale	<u>222,806</u>	<u>56,672</u>	<u>14,942</u>
	<u>5,386,989</u>	<u>1,720,269</u>	<u>2,058,547</u>
Loans	14,324,361	4,574,026	4,101,822
Provision for doubtful loans	(812,675)	(259,553)	(190,252)
Unearned interest on discounted notes	<u>(196,829)</u>	<u>(61,975)</u>	<u>(54,890)</u>
Loans, net	<u>13,314,857</u>	<u>4,252,498</u>	<u>3,856,680</u>
Property, furniture and equipment, net	649,785	218,219	202,465
Due from customers on acceptances	156,863	50,116	65,929
Other assets	<u>1,087,137</u>	<u>373,840</u>	<u>301,918</u>
Total assets	<u>20,595,631</u>	<u>6,614,942</u>	<u>6,485,539</u>
Liabilities and shareholders' equity			
Deposits			
Non-interest bearing	1,576,040	503,247	439,100
Interest bearing	<u>13,950,376</u>	<u>4,454,507</u>	<u>4,440,812</u>
	<u>15,526,416</u>	<u>4,957,754</u>	<u>4,879,912</u>
Short-term borrowings	1,589,899	509,566	589,239
Banker's acceptances outstanding	156,863	50,116	65,929
Other liabilities	844,346	292,498	333,277
Long-term debt	838,936	268,497	91,408
Common stock	937,200	321,649	307,241
Legal reserve and retained earnings	<u>701,971</u>	<u>214,862</u>	<u>218,533</u>
Total liabilities and shareholders' equity	<u>20,595,631</u>	<u>6,614,942</u>	<u>6,485,539</u>
Off-Balance sheet accounts:			
Contingents liabilities	3,147,329	1,005,088	1,023,293
Other	<u>37,385,530</u>	<u>11,937,414</u>	<u>9,329,521</u>
	<u>40,532,859</u>	<u>12,942,502</u>	<u>10,352,814</u>

17 FINANCIAL INFORMATION BY INDUSTRY AND GEOGRAPHICAL AREA

The following table presents the Group's financial information by industry and geographical area for the years ended December 31, 1998 and 1997:

a) Segments of business by industry- (amounts expressed in millions of U.S. dollars)

	1998					1997				
	Total re- vues	Opera- ting income (*)	Depre- ciation/ amorti- zation	Fixed assets	Total assets	Total re- vues	Opera- ting income (*)	Depre- ciation/ amorti- zation	Fixed assets	Total assets
Banking	1,054	392	33	252	7,507	1,010	392	28	234	7,409
Insurance	135	32	3	39	332	119	31	2	39	285
Brokerage and others	<u>21</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>113</u>	<u>11</u>	<u>(5)</u>	<u>-</u>	<u>-</u>	<u>109</u>
Consolida- ted total	<u>1,210</u>	<u>428</u>	<u>36</u>	<u>291</u>	<u>7,952</u>	<u>1,140</u>	<u>418</u>	<u>30</u>	<u>273</u>	<u>7,803</u>

b) Segment information by geographical area - (amounts expressed in millions of U.S. dollars)

	1998			1997		
	Total re- vues	Opera- ting income (*)	Total assets	Total re- vues	Opera- ting income (*)	Total assets
Peru	930	356	5,551	881	361	5,744
Panama	9	3	101	8	1	77
Cayman Islands	98	10	1,133	117	9	1,117
Bolivia	65	26	605	44	16	389
Republic of El Salvador	12	4	124	-	-	53
Colombia	88	25	362	81	27	347
United States of America	<u>8</u>	<u>4</u>	<u>76</u>	<u>9</u>	<u>4</u>	<u>76</u>
Consolidated total	<u>1,210</u>	<u>428</u>	<u>7,952</u>	<u>1,140</u>	<u>418</u>	<u>7,803</u>

(*) Operating income includes the net interest income from banking activities and the amount of the net premiums earned, less insurance claims.

18 FAIR VALUE OF FINANCIAL INSTRUMENTS

IAS 32 defines a financial instrument as any contract, which gives rise to any financial assets of one enterprise and a financial liability or equity instrument of another enterprise, considering as such cash, any contractual right to receive cash or another financial asset or to exchange financial instruments or instruments or an equity instrument of another enterprise. In addition, the financial instruments include both primary instruments, such as receivables, payables and equity securities, and the derivative instruments, such as financial options.

Fair value is defined as the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When a financial instrument is traded in an active and liquid market, its quoted market price in an actual transaction provides the best evidence of its respective fair value. When a quoted market price is not

available, or may not be indicative of the fair value of the instrument, to determine such fair value, the current market value of another instrument that is substantially similar, discounted cash flow analysis or other estimation techniques may be used, all of which are significantly affected by the assumptions used.

Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable or liquidation value.

A significant portion of the Group's assets and liabilities are short-term financial instruments, with a remaining maturity of under one-year. These short-term financial instruments, with the exception of those for which an active market exists, are considered to have a fair value equivalent to their carrying value at the balance sheet date.

The methodologies and assumptions used depend on the terms and risk characteristics of the various instruments and include the following:

- Cash and due from banks represent cash and short-term deposits that do not represent significant credit risks.
- Marketable securities and investments in securities available for sale are generally quoted. Interest earning assets and liabilities with an original maturity of less than one year have been assumed to have a fair value not materially different from book value.
- Market value of loans is similar to their book value, as such loans correspond principally to short-term loans and they are recorded net of the respective provision for loan losses.
- Market value of deposits and obligations is similar to their book value, principally because of their current nature and that the interest rates are comparable with the interest rate of other similar liabilities.
- Due to banks and correspondents generate interest contracted at variable interest rates and preferred rates, it has been assumed that their book value is similar to their market value.

As disclosed in Note 15, the Group has various commitments to extend credit, open documentary credits and outstanding guarantees. Based on the level of fees currently charged from granting such commitments and open documentary credits, taking into account maturity and interest rates, together with the present creditworthiness of the counterparties, the difference between the book value and the fair value is not material. Because of the uncertainty involved in assessing the likelihood and timing of guarantees being drawn coupled with the lack of an established market, it is not practical for the Group to determine the estimated fair value for outstanding guarantees.

The estimated fair values of the Group's financial instruments are as follows:

	As of December 31,			
	1998		1997	
	Book	Estimated	Book	Estimated
	value	fair value	value	fair value
	US\$000	US\$000	US\$000	US\$000
Assets -				
Cash and due from banks	1,612,441	1,612,441	1,808,168	1,808,168
Marketable securities, net	342,293	341,676	562,738	572,131
Loans, net	4,834,368	4,834,368	4,363,971	4,363,971
Investments in securities available for sale	271,996	244,557	247,753	244,094
Liabilities -				
Deposits and obligations	5,484,042	5,484,042	5,432,253	5,432,253
Due to banks and correspondents	1,047,503	1,047,503	963,361	963,361
Subordinated bonds	58,771	58,771	47,530	47,530

The related information of interest rates applicable to loans, the maturities and the credit concentrations are shown in Note 6.

The related information of interest rates and maturities of deposits and obligations and due from banks and correspondents are shown in Notes 10 and 11, respectively.

19 TRANSACTIONS WITH RELATED PARTIES AND AFFILIATED COMPANIES

Certain shareholders, directors and officers of the Group have been involved, directly and indirectly, in credit transactions with the different subsidiaries of the Group, as permitted by the Peruvian Law No.26702, which regulates and limits certain transactions with employees, directors and officers of a bank or an insurance company. As of December 31, 1998, loans and other credits to employees of the Group amounted to approximately US\$31.1 million, which include home mortgage loans of approximately US\$25.9 million, (US\$26.7 million and US\$22.8 million, respectively as of December 31, 1997).

As of December 31, 1998, loans and other contingent credits to related parties of Credicorp were US\$177.9 million in the aggregate, including US\$166.7 million in outstanding loans (US\$253.3 million and US\$231.3 million, respectively, as of December 31, 1997), which comprises approximately 3.3% (5.1% as of December 31, 1997) of Credicorp's total outstanding loan portfolio. These loans and other contingent credits were ranked in the following risk categories at December 31, 1998: normal 74.7%, with potential problems 18.5% and substandard 6.8% (normal 83.6%, with potential problems 12% and substandard 4.4% as of December 31, 1997).

All loans, insurance and services to related parties were made on terms no more favorable than would have been offered to the public.

20 DIFFERENCES BETWEEN INTERNATIONAL ACCOUNTING STANDARDS AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The accompanying consolidated financial statements are prepared in accordance with International Accounting Standards (IAS).

A description of the significant differences between IAS and the generally accepted accounting principles of the United States of America (U.S. GAAP) follows:

a) Reserve for possible loan losses -

The reserve for possible loan losses is calculated according to specific guidelines set by the SBS as explained in Note 2 and Note 6. The generic provision for loans included in the reserve for possible loan losses has been formed based on the criteria disclosed in Note 6.

Under U.S. GAAP, the reserve for possible loan losses should be in amounts adequate but not excessive to cover losses in the loan portfolio at the respective balance sheet dates. In addition, Financial Accounting Standards Board (FASB) Statement No.114 "Accounting by creditors for impairment of a loan" requires that all creditors value all specifically reviewed loans for which it is probable that the creditor will be unable to collect all amounts due according to the terms of the loan agreement, at either the present value of expected cash flows, market price or value of collateral.

The process followed by the Group for the determination of the reserve for possible loan losses differs in some respects from the process which have been followed under U.S. GAAP. The Group has estimated its required reserve for U.S. GAAP purposes in the following manner:

- All loans made by the Group were classified in accordance with the rules of the SBS.
- The reserve assigned to each loan category was analyzed and adjusted, if necessary, to reflect estimated losses for such category.
- The generic provision was determined to conform with the policy defined by the Board of Directors of the Group. In accordance with this policy, such provision, depending on the economic conditions prevailing in the market, is estimated within a range from a maximum 2 percent of the loan portfolio, net of specific provisions and liquid guarantees, to a minimum of 5 percent of the consumer loans and credit cards balances at the balance sheet date.

For the years ended December 31, 1998 and 1997, all specifically reviewed loans for which it is probable that the Group would be unable to collect all amounts due in accordance with their original terms (impaired loans), were analyzed taking into consideration some estimations, as the

present value of their expected cash flows, the market price or the value of collateral, in order to record, if applicable, the related provisions. The Group considers as impaired loans classified as substandard, doubtful and loss, which amount approximately to US\$667.0 million (Note 6) as of December 31, 1998 (US\$492.3 million as of December 31, 1997).

Based on the above considerations, management believes there is no significant difference between the amount of the reserve for loan losses taken under IAS and the required reserve that would be provided for under U.S. GAAP. Management believes that the reserve for loan losses was adequate at December 31, 1998 and 1997, to cover any losses known and any losses that have not been specifically identified in the loan portfolio.

b) Fees and commissions from banking services -

In accordance with U.S. GAAP, fees and commissions from banking services should be deferred and amortized over the useful life of the related services. The Group recorded these commissions on a cash basis; however, the impact of this procedure is not significant in relation to U.S. GAAP due to the short term of the services provided by the Group.

c) Investments in Debt and Equity securities -

SFAS 115 "Accounting for certain investments in debt and equity securities", requires the Group to classify the Group's investment in securities in one or more of three categories: trading, available for sale and held to maturity.

Trading securities would be carried at market value, with unrealized gains and losses recorded in the income statement.

Available for sale securities would be carried at market value, with unrealized gains and losses recorded in other comprehensive income.

Held to maturity securities would be carried at amortized cost.

The Group carries its marketable securities at the lower of cost or market value and its investment available for sale at the lower of cost or net realizable value. A provision for unrealized losses on investment is recorded when an impairment is considered permanent, in accordance with Management's criteria and based on estimated development of these investments. The effects of adopting SFAS 115 are included in the following reconciliation.

d) Summary of significant adjustments to net income -

The significant adjustments that would be required to determine the net income of the Group under U.S. GAAP instead of IAS is summarized below:

	<u>For the year ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Net income in accordance with IAS	42,096	110,060	116,149
Additions (deductions):			
Valuation of trading securities at their market value	(11,236)	(4,804)	13,554
Deferred tax effect of the adjustment	(74)	480	(1,588)
Minority interest effect of the adjustment	<u>4,537</u>	<u>(1,492)</u>	<u>744</u>
Approximate net income in accordance with U.S. GAAP	<u>35,323</u>	<u>104,244</u>	<u>128,859</u>
Approximate net income in accordance with U.S. GAAP			
per weighted average number of shares	<u>0.44</u>	<u>1.29</u>	<u>1.59</u>
Weighted average number of outstanding shares, adjusted by the effects of the exchange offer and stock dividends and excluding the treasury stock (in thousands of shares)	<u>81,004</u>	<u>81,004</u>	<u>81,004</u>

Earning per share was calculated in accordance with FAS 128, which is effective for years ended 1997 and must be applied retroactively. There was no difference in EPS from amounts previously accounted for under APB 15.

e) Summary of significant adjustments to shareholders' equity -

A summary of the significant adjustments, which would be required to determine the shareholders' equity of the Group under U.S. GAAP instead of IAS follows:

	<u>As of December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Shareholders' equity in accordance with IAS	752,387	743,404	664,009
Additions (deductions):			
Valuation of trading securities at market value	(617)	10,619	15,423
Valuation of investments available for sale	(27,439)	(4,885)	(15,105)
Deferred tax effect of the adjustment	(1,502)	(1,428)	(1,908)
Minority interest effect of the adjustment	<u>6,138</u>	<u>1,601</u>	<u>3,093</u>
Approximate shareholders' equity in accordance with U.S. GAAP	<u>728,967</u>	<u>749,311</u>	<u>665,512</u>

f) Comprehensive income -

	<u>For the year ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Approximate net income in accordance with U.S.GAAP	<u>35,323</u>	<u>104,244</u>	<u>128,859</u>
Unrealized losses on securities available for sale			
Unrealized holding (losses) gains arising during the period	(21,696)	10,515	(5,229)
Reclassification adjustment for gains realized in net income	(858)	(295)	-
Other comprehensive income	<u>(22,554)</u>	<u>10,220</u>	<u>(5,229)</u>
Comprehensive income	<u>12,769</u>	<u>114,464</u>	<u>123,630</u>

Cumulative other comprehensive income is as follows:

	<u>For the year ended December 31,</u>		
	<u>1998</u>	<u>1997</u>	<u>1996</u>
	<u>US\$000</u>	<u>US\$000</u>	<u>US\$000</u>
Beginning balance	(4,885)	(15,105)	(9,876)
Current period change	<u>(22,554)</u>	<u>10,220</u>	<u>(5,229)</u>
Ending balance	<u>(27,439)</u>	<u>(4,885)</u>	<u>(15,105)</u>

In 1998, Financial Accounting Standards Board issued Statements of Financial Accounting Standards Nos.133 and 134.

SFAS 133 - Accounting for derivative instruments and hedging activities, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognizes all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

This standard shall be effective for the financial statements for the fiscal years beginning after June 15, 1999; however, the Board issued an Exposure Draft on May 20, 1999, with a 30 day comment period, to delay the effective date of this statement by one year. The Board expects a final decision before June 30, 1999.

SFAS 134 - Accounting for mortgage-backed securities retained after the securitization of mortgage loans held for sale by a mortgage banking, modifies FAS 65, which establishes accounting and reporting standards for certain activities for mortgage banking and enterprises that carries out operations

substantially similar to primary operations of a mortgage bank. This standard requires that after a securitization of a mortgage loan held for sale, an entity that develops mortgage banking activities classifies the resulting mortgage securities as available for sale.

This standard shall be effective for the financial statements for the fiscal years beginning after December 15, 1998.

Regarding these new accounting pronouncements, Management expects that there will not be any significant effect on the consolidated financial statements of the Group.