

## **CREDICORP LTD. AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND DECEMBER 31, 2001 AND  
FOR THE THREE YEARS ENDED DECEMBER 31, 2002

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US\$ = United States dollar

S/. = Peruvian new sol

## REPORT OF INDEPENDENT ACCOUNTANTS

February 12, 2003

To the Shareholders and Board of Directors  
Credicorp Ltd.

We have audited the accompanying consolidated balance sheets of Credicorp Ltd. (a Bermuda limited liability company) and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, of changes in shareholders' equity and of cash flows for the three years ended December 31, 2002. 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.

We conducted our audits in accordance with International Standards on Auditing. 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 referred to above present fairly, in all material respects, the financial position of Credicorp Ltd. and subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for the three years ended December 31, 2002, in conformity with International Accounting Standards.

Countersigned by

------(partner)

Arnaldo Alvarado L.  
Peruvian Public Accountant  
Registration No.7576

**CREDICORP LTD. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET (Notes 1, 2, 3, 19 and 20)**
**ASSETS**

	<b>At December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>CASH AND DUE FROM BANKS (Note 4)</b>		
Non-interest bearing	314,404	277,841
Interest bearing	1,867,986	1,619,611
	<u>2,182,390</u>	<u>1,897,452</u>
<b>TRADING SECURITIES, NET (Note 5)</b>	<u>605,104</u>	<u>548,138</u>
<b>LOANS (Notes 6 and 21)</b>	4,817,663	4,064,479
Less, reserve for loan losses	(424,031)	(344,433)
	<u>4,393,632</u>	<u>3,720,046</u>
<b>INVESTMENTS AVAILABLE-FOR-SALE (Note 7)</b>	<u>635,284</u>	<u>587,349</u>
<b>PREMIUMS AND OTHER POLICIES RECEIVABLE</b>	<u>61,856</u>	<u>54,587</u>
<b>REINSURANCE RECEIVABLE (Note 12)</b>	<u>29,677</u>	<u>45,663</u>
<b>PROPERTY, FURNITURE AND EQUIPMENT, NET (Note 8)</b>	<u>290,185</u>	<u>258,870</u>
<b>DUE FROM CUSTOMERS ON ACCEPTANCES</b>	<u>36,068</u>	<u>38,606</u>
<b>OTHER ASSETS (Note 9)</b>	<u>353,837</u>	<u>399,358</u>
<b>GOODWILL</b>	<u>28,740</u>	<u>31,772</u>
	<u>8,616,773</u>	<u>7,581,841</u>
<b>OFF - BALANCE SHEET ACCOUNTS (Note 18)</b>		
Contingent liabilities	1,232,236	940,878
Other	20,252,254	14,973,862
	<u>21,484,490</u>	<u>15,914,740</u>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<b>At December 31,</b>	
	<b>2002</b>	<b>2001</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>DEPOSITS AND OBLIGATIONS (Note 10)</b>		
Non-interest bearing	822,884	766,607
Interest bearing	5,558,316	4,776,751
	<u>6,381,200</u>	<u>5,543,358</u>
<b>DUE TO BANKS AND CORRESPONDENTS (Note 11)</b>		
Short-term borrowings	124,961	128,371
Long-term debt	184,737	213,081
	<u>309,698</u>	<u>341,452</u>
<b>BANKERS' ACCEPTANCES OUTSTANDING</b>	<u>36,068</u>	<u>38,606</u>
<b>RESERVE FOR PROPERTY AND CASUALTY CLAIMS</b>	<u>224,754</u>	<u>193,452</u>
<b>RESERVE FOR UNEARNED PREMIUMS</b>	<u>48,703</u>	<u>44,706</u>
<b>REINSURANCE PAYABLE (Note 12)</b>	<u>23,255</u>	<u>23,801</u>
<b>OTHER LIABILITIES (Note 9)</b>	<u>220,998</u>	<u>222,750</u>
<b>BONDS ISSUED (Note 10-d)</b>	<u>483,555</u>	<u>264,688</u>
<b>MINORITY INTEREST</b>	<u>64,742</u>	<u>112,255</u>
<b>SHAREHOLDERS' EQUITY (Note 13)</b>		
Common shares	471,912	471,912
Treasury stock	(73,177)	(74,605)
Capital surplus	140,500	139,020
Legal reserve	69,527	69,527
Special reserve	34,577	34,577
Retained earnings	180,461	156,342
	<u>823,800</u>	<u>796,773</u>
<b>TAX SITUATION (Note 15)</b>		
	<u>8,616,773</u>	<u>7,581,841</u>
<b>OFF - BALANCE SHEET ACCOUNTS (Note 18)</b>		
Contingent liabilities	1,232,236	940,878
Other	20,252,254	14,973,862
	<u>21,484,490</u>	<u>15,914,740</u>

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

## CREDICORP LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENT OF INCOME (Notes 1, 2 and 19)

	For the years ended December 31,		
	2002	2001	2000
	US\$000	US\$000	US\$000
<b>INTEREST INCOME</b>			
Interest from loans	420,341	544,255	598,842
Interest from deposits with banks	36,516	65,523	84,325
Interest from marketable securities and investments available-for-sale	72,724	82,607	73,644
Dividends on investments	2,293	2,387	6,724
Total interest income	<u>531,874</u>	<u>694,772</u>	<u>763,535</u>
<b>INTEREST EXPENSE</b>			
Interest on deposits	(117,258)	(220,024)	(303,967)
Interest on loans from banks and correspondents	(25,285)	(59,177)	(62,843)
Other interest expense	(35,527)	(39,341)	(22,938)
Total interest expense	<u>(178,070)</u>	<u>(318,542)</u>	<u>(389,748)</u>
Net interest income	353,804	376,230	373,787
Provision for loan losses (Note 6)	(99,596)	(119,422)	(170,102)
Net interest income after provision for loan losses	<u>254,208</u>	<u>256,808</u>	<u>203,685</u>
<b>OTHER INCOME</b>			
Commissions from banking services	177,305	167,300	155,198
Net (loss) gain from sales of securities (Notes 1 and 7)	(1,097)	31,737	8,954
Net gain on foreign exchange transactions	22,582	17,549	23,625
Net premiums earned (Note 12)	125,218	112,204	113,395
Other income (Note 16)	11,651	14,104	28,003
	<u>335,659</u>	<u>342,894</u>	<u>329,175</u>
<b>INSURANCE ACTIVITY CLAIMS</b>			
Net claims incurred	(23,701)	(26,349)	(35,609)
Increase in costs for future benefits for life and health policies	(74,200)	(70,668)	(56,652)
	<u>(97,901)</u>	<u>(97,017)</u>	<u>(92,261)</u>
<b>OTHER EXPENSES</b>			
Salaries and employees' benefits	(178,528)	(173,974)	(171,403)
Administrative expenses	(138,442)	(141,851)	(140,121)
Depreciation and amortization	(41,338)	(43,355)	(44,074)
Provision for assets seized (Note 9)	(15,094)	(11,025)	(18,987)
Amortization of goodwill	(3,033)	(3,377)	(3,446)
Other expenses (Note 16)	(27,751)	(34,619)	(21,117)
Translation loss	(2,482)	(2,575)	(8,500)
	<u>(406,668)</u>	<u>(410,776)</u>	<u>(407,648)</u>
Income before income tax and minority interest	85,298	91,909	32,951
Income tax, current and deferred (Note 15)	(32,628)	(21,557)	(9,702)
Minority interest	(10,287)	(15,839)	(5,553)
<b>Net income for the year</b>	<u>42,383</u>	<u>54,513</u>	<u>17,696</u>
<b>Earnings per share in United States dollars (Note 17)</b>	<u>0.53</u>	<u>0.69</u>	<u>0.22</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, 2002

	<b>Number of outstanding shares</b> <b>(in thousands)</b>	<b>Common shares</b> <b>US\$000</b>	<b>Treasury stock</b> <b>US\$000</b>	<b>Capital surplus</b> <b>US\$000</b>	<b>Legal reserve</b> <b>US\$000</b>	<b>Special reserve</b> <b>US\$000</b>	<b>Retained earnings</b> <b>US\$000</b>	<b>Total</b> <b>US\$000</b>
<b>Balances at January 1, 2000</b>	94,382	471,912	(67,173)	147,499	69,527	-	133,976	755,741
Increase in treasury stock	-	-	(4,132)	(2,435)	-	-	-	(6,567)
Adjustment to generic reserves (Notes 6 and 9)	-	-	-	-	-	23,960	-	23,960
Generic reserves (Note 6)	-	-	-	-	-	4,699	(4,699)	-
Cash dividends	-	-	-	-	-	-	(8,100)	(8,100)
Net income for the year	-	-	-	-	-	-	17,696	17,696
<b>Balances at December 31, 2000</b>	<u>94,382</u>	<u>471,912</u>	<u>(71,305)</u>	<u>145,064</u>	<u>69,527</u>	<u>28,659</u>	<u>138,873</u>	<u>782,730</u>
Increase in treasury stock	-	-	(3,300)	(6,044)	-	-	-	(9,344)
Adoption of IAS 39, net of deferred income tax	-	-	-	-	-	-	4,461	4,461
Cash dividends	-	-	-	-	-	-	(8,014)	(8,014)
Extraordinary cash dividends (Note 13-e)	-	-	-	-	-	-	(15,894)	(15,894)
Net unrealized loss from investments available- for-sale	-	-	-	-	-	-	(3,096)	(3,096)
Net realized gain from investments available- for-sale	-	-	-	-	-	-	(8,583)	(8,583)
Reversal of generic reserve for loans (Note 6)	-	-	-	-	-	(6,726)	6,726	-
Generic provision for assets seized (Note 9)	-	-	-	-	-	12,644	(12,644)	-
Net income for the year	-	-	-	-	-	-	54,513	54,513
<b>Balances at December 31, 2001</b>	<u>94,382</u>	<u>471,912</u>	<u>(74,605)</u>	<u>139,020</u>	<u>69,527</u>	<u>34,577</u>	<u>156,342</u>	<u>796,773</u>
Decrease in treasury stock	-	-	1,428	1,480	-	-	-	2,908
Cash dividends	-	-	-	-	-	-	(15,987)	(15,987)
Net unrealized loss from investments available- for-sale	-	-	-	-	-	-	(14,444)	(14,444)
Net realized loss from investments available- for-sale	-	-	-	-	-	-	12,167	12,167
Net income for the year	-	-	-	-	-	-	42,383	42,383
<b>Balances at December 31, 2002</b>	<u>94,382</u>	<u>471,912</u>	<u>(73,177)</u>	<u>140,500</u>	<u>69,527</u>	<u>34,577</u>	<u>180,461</u>	<u>823,800</u>

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

# CREDICORP LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOWS (Note 2)

	For the years ended December 31,		
	2002	2001	2000
	US\$000	US\$000	US\$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year	42,383	54,513	17,696
Add (deduct):			
Provision for loan losses	99,596	119,422	170,102
Depreciation and amortization	41,338	43,355	44,074
Amortization of goodwill	3,033	3,377	3,446
Provision for assets seized	15,094	11,025	18,987
Net loss (gain) from sales of securities	1,097	(31,737)	(8,954)
Net changes in assets and liabilities:			
Net increase in marketable securities	(48,267)	(200,216)	(76,657)
Net decrease in loans	(114,347)	273,130	147,646
Other assets	68,712	(16,857)	(55,867)
Net increase in deposits and obligations	155,798	87,281	117,587
Net decrease in due to banks and correspondents	(65,988)	(117,939)	(141,202)
Other liabilities	(38,799)	1,483	57,780
Net cash provided by operating activities	<u>159,650</u>	<u>226,837</u>	<u>294,638</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net cash for the acquisition of Banco Santander Central Hispano Perú S.A. (BSCH)	(50,000)	-	-
Purchase of investments available-for-sale	(322,656)	(391,137)	(207,215)
Sales of investments available-for-sale	340,100	371,335	100,988
Purchase of property, furniture and equipment	(22,864)	(30,848)	(23,153)
Property, furniture and equipment retired	1,560	3,278	5,826
Net cash used in investing activities	<u>(53,860)</u>	<u>(47,372)</u>	<u>(123,554)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in subordinated debt	1,445	(17,232)	5,135
Purchase of treasury stock	2,908	(9,344)	(6,567)
Cash dividends	(15,987)	(8,014)	(8,100)
Net cash used in financing activities	<u>(11,634)</u>	<u>(34,590)</u>	<u>(9,532)</u>
Net increase in cash and cash equivalents	94,156	144,875	161,552
Cash and due from banks from BSCH, net of cash paid for the acquisition	190,782	-	-
Cash and cash equivalents at the beginning of the year	1,897,452	1,752,577	1,591,025
Cash and cash equivalents at the end of the year	<u>2,182,390</u>	<u>1,897,452</u>	<u>1,752,577</u>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>			
Cash paid during the year for:			
Interest	101,185	327,459	419,899
Income taxes	3,487	3,699	3,281
Supplementary schedule of non-cash investing and financing activities:			
Constitution of the special reserve	-	-	23,960
Valuation of investments available-for-sale to market value	2,277	7,218	-
Dividends pending payment	-	15,894	-

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

## **CREDICORP LTD. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2002 AND DECEMBER 31, 2001**

#### **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 (ASHC) 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. As of December 31, 2002 and 2001, the participation of Credicorp in the capital of BCP is 96.22% and 90.55%, respectively and 100% in the capital of ASCH.

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 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).

ASHC 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 also 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 Credito del Peru S.A. (ICSA) is a Peruvian corporation incorporated on February 17, 1987 whose principal activity is investment in listed and non-listed equity securities.

Banco Tequendama, acquired by Credicorp in January 1997, is a private banking institution, established on May 5, 1976, in accordance with Colombian laws and with a period of duration until June 30, 2010; this period could be extended in accordance with current legislation. The principal objective of the Bank includes making loans to private and public companies and individual loans.



CCR Inc. and CCV Inc., entities for special purposes incorporated in Bahamas in December 2000 and September 2001, respectively; whose principal activity is to manage the resources received of the securitizations carried out by BCP in January of 2001 and November of 1998, respectively.

Credicorp Securities Inc., incorporated in the United States of America whose principal activity will be to engage in brokerage activities in the securities market, directed principally to retail customers in Latin America, began its operations during the month of January 2003.

#### **Acquisition of entities -**

In session of BCP's Board of Directors held on October 31, 2002 the Executive Committee was authorized to carry out negotiations with Banco Santander Central Hispano Peru (BSCH – Peru) and to perform a Public Acquisition Offering (OPA) for not less than 99.9% of its shares. The OPA started on November 15, 2002 and ended on December 13, 2002 with the acquisition of 99.94% of the shares of BSCH – Peru. According to Law 26702, BCP has a period no longer than 6 months to absorb this financial entity. In this respect, in a BCP General Meeting of Shareholders held on December 30, 2002 this transaction was approved and will be carried out for all legal effects on February 28, 2003.

The acquisition of BSCH – Peru and its subsidiaries have been recorded under the purchase method reflecting their assets and liabilities at fair values at the date of acquisition. For practical reasons, the acquisition of BSCH – Peru and its subsidiaries have been considered as if this had been realized on November 30, 2002.

The fair values of the identifiable assets and liabilities of such financial entity were as follows:

	<b>US\$000</b>
Loans, net	658,835
Other assets	349,152
Total liabilities	( 957,987)
Net cash paid for the acquisition	<u>50,000</u>

#### **Sales of entities -**

In November 2001, Credicorp sold its participation in Banco Capital, a private banking institution established in the Republic of El Salvador, to third-parties for US\$32.2 million. This transaction generated a gain of US\$6.2 million, net of unamortized goodwill at that date of US\$0.5 million, which was included in the caption Net gain from sales of securities in the consolidated statement of income.

The balances of the significant accounts of the financial statements of the Banco Capital included in the consolidated financial statements of Credicorp Group for the period between January 1, 2001 and October 31, 2001 and for year ended as of December 31, 2000, are as follows:

	<u>2001</u> US\$000	<u>2000</u> US\$000
Total assets	209,587	212,479
Total net equity	25,515	23,992
Financial income	17,676	20,105
Financial Expenses	9,979	12,647
Income for the period/year	1,524	1,044

## 2 ACCOUNTING PRINCIPLES AND POLICIES

The financial statements have been prepared in accordance with International Accounting Standards (IAS). The most significant accounting principles and policies used for the recording of the operations and in the preparation of the financial statements are as follows:

### a) Consolidation -

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, 2002 and 2001, with indication of the percentage of participation owned directly and indirectly by Credicorp as of those dates, as well as other relevant consolidated information before elimination for consolidation purposes are:

<u>Entity</u>	<u>Percentage of Participation</u>		<u>Total assets</u>		<u>Total shareholders' equity</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
			US\$000	US\$000	US\$000	US\$000
• Banco de Credito del Peru	96.22	90.55	7,312,169	6,095,694	580,891	543,251
• Atlantic Security Holding Corporation	100.00	100.00	660,588	695,409	104,327	136,910
• El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros	75.83	75.83	480,570	479,425	148,133	190,187
• Inversiones Credito del Peru S.A.	99.99	99.99	50,011	49,367	20,636	21,137
• Banco Tequendama	99.99	99.99	270,681	384,789	36,604	34,378

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

	<b>For the years ended December 31,</b>		
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>1999</u></b>
	<b><u>US\$000</u></b>	<b><u>US\$000</u></b>	<b><u>US\$000</u></b>
Consolidated net income of:			
BCP	62,512	50,517	26,599
ASHC	1,586	4,630	10,282
PPS (Note 7)	9,289	24,607	2,081
ICSA (Note 7)	( 509)	1,326	2,792
	<u>72,878</u>	<u>81,080</u>	<u>41,754</u>
Less: Minority interest			
BCP	( 2,708)	( 4,774)	( 2,514)
PPS	( 2,245)	( 5,947)	( 503)
	<u>( 4,953)</u>	<u>( 10,721)</u>	<u>( 3,017)</u>
Amortization of goodwill			
ASHC	( 984)	( 984)	( 984)
PPS	( 1,200)	( 1,200)	( 1,200)
Banco Capital and Banco de La Paz	( 849)	( 1,193)	( 1,262)
	<u>( 3,033)</u>	<u>( 3,377)</u>	<u>( 3,446)</u>
Other subsidiaries and Credicorp's expenses	( 22,509)	( 12,469)	( 17,595)
Consolidated net income	<u>42,383</u>	<u>54,513</u>	<u>17,696</u>

The following procedures were applied to prepare the Group's consolidated financial statements:

- The Group followed the purchase method of accounting for the exchange of Credicorp's shares for BCP, ASHC and PPS's, considering BCP as the predecessor entity, and ASHC and PPS as the acquired entities.
- 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 the participation of the minority shareholders of Solucion Financiera de Credito del Peru S.A., a subsidiary of BCP which has 55% of its capital.
- The financial statements of BCP, PPS and ICSA are prepared in Peruvian new soles adjusted for inflation in accordance with accounting principles generally accepted in Peru, and subsequently the necessary adjustments were incorporated to reconcile with IAS; the consolidated financial statements of ASHC are maintained in U.S. dollars and those of the other subsidiaries are maintained in the local currency of each country where they operate; however, the Group considers that its measurement currency is the U.S. dollar because it reflects the economic substance of the underlying events and the circumstances relevant to the Group; insofar its main operations and/or transactions in the different countries where the Group operates, such as, the credits granted, the financing obtained, the sale of insurance premiums, the interest income and expenses, the salaries

and the purchases are established and liquidated in U.S. dollars. In consequence, the balances and transactions in foreign currency have been translated to U.S. dollars using the methodology described in the Note 2-b).

- All significant intercompany accounts and transactions between the Group's entities have been eliminated in the accompanying consolidated financial statements.

b) Foreign currency translation -

Credicorp's subsidiaries are considered as foreign operations; in consequence the balances and operations of the subsidiaries that maintain their accounting records in other currencies different to the U.S. dollar have been translated to this currency 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 consolidated statement of income.

c) 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 the contingencies and the recognition of income and expenses. 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, which 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. The principal estimates related to the consolidated financial statements are referred to the reserve for loan losses, unrealized gain or loss of investments available-for-sale, depreciation of property, furniture and equipment, amortization of intangible assets, the provision corresponding to the technical reserves for claims and premiums, the workers' profit sharing and income tax (current and deferred).

d) Recognition of revenues and expenses for banking activities -

Interest income and expenses are recognized in the income statement for all interest bearing instruments on the accrual basis using the effective yield method based over the period of the related transactions. Interest income includes the yield earned on the investments.

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 principal of any overdue loan becomes doubtful of collection, it is written down to its recoverable amounts and interest income is thereafter recognized based on the rate of interest that was used to discount the future cash flows for the purpose of measuring of the recoverable amount of the principal (Note 6-e).

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

e) 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 reserve for unearned premiums is calculated on an individual basis for each policy or coverage certificate, applying to the insurance premiums (direct insurance and reinsurance accepted premiums less ceded premiums), net of commissions and taxes, the portion unearned of the total risk (in number of days). Likewise, a premium deficiency reserve is made when the reserve for unearned premiums becomes insufficient to cover the risks and future expenses that correspond to the unexpired period of coverage at the date of calculation.

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 at December 31, 2002 have been estimated by taking into consideration the arithmetic progression of the percentages computed over the actual figures for the years 1994 through 2001, inclusive. Management considers that the estimated amount is sufficient to cover any liability related to IBNR at December 31, 2002, 2001 and 2000.

Reserve for pension funds insurance is recorded on the basis of a report prepared by an insurance actuary and represents the current value of all future contributions to be made, including those past due payments still pending.

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

f) Loans and reserve for loan losses -

Loans originated by the Group by providing money directly to the borrower are carried at amortized cost. All loans are recognized when cash is advanced to the borrower.

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. Management conducts a formal review and analysis of all the loan portfolio, at least annually, authorizing the necessary adjustments to the reserve for possible loan losses. The review and analysis also identify specific clients against whom legal proceedings should be or have been initiated as well as those clients who appear to have financial difficulties. The reserve for loan losses is increased if objective evidence exists that the Group cannot recover the outstanding amount. In addition, 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.

An allowance for loan impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including recoverable amounts of the guarantees and collateral, discounted at the original effective interest rate of loans.

When a loan is uncollectable, it is written off against the related provision for impairments; subsequent recoveries are credited to the provision for loan losses in the consolidated statement of income.

Additionally, in accordance with SBS regulations, generic provisions are recorded as an appropriation to a special reserve from retained earnings. These appropriations have no effect on net income for the period or the balance of shareholders' equity.

If the amount of the impairment previously written-off is collectable, it is credited to the provision for loan losses.

g) Leasing transactions-

In the cases of finance leases, the present value of the lease payments is recognized as a loan. The difference between the gross receivable and the present value of the loan is recognized as unearned financial income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

h) Investment -

As from 2001, the Group classified its investments in accordance with IAS 39. Management determines the classification of its investments at the date of their purchase and evaluates such classification periodically.

The purchases and sales of investments are recognized at the date of the negotiation that corresponds to the date in which the Group commits itself to buy or to sell the assets.

Investments acquired, including those directly from the issuer, mainly with the purpose of generating profits based on short-term price fluctuations, are considered as trading investments. The investments available-for sale are those that the Group intends to hold for an undefined period and can be sold in response to liquidity needs or changes in market interest rates.

Trading investments and investments available-for-sale are initially recognized at cost, including the inherent costs of the transaction and subsequently are valued at their fair value.

Fair values are based on quoted prices. Investments in mutual funds are valued at quota participation value, which is determined on the basis of the equity of mutual funds that includes the unrealized gains or losses of the investments of the mutual fund. Unquoted equity and debt investments are valued at cost less a provision for impairment. An investment is impaired if its carrying amount is greater than its estimated recoverable amount (discounted present value of expected future cash flows).

All related realized and unrealized gains and losses are included in the income statement. Unrealized gains and losses arising from changes in the fair value of securities classified as investments available-for-sale are recognized in equity. Unrealized gains or losses are recognized in income of the year, when the investments available-for-sale are sold or are impaired.

Securities sold subject to a linked repurchase agreements ('repos') are retained in the financial statements as investment securities and the counterparty liability is included in amounts due to banks and correspondents. Securities purchased under agreements to resell ('reverse repos') are recorded as other accounts receivable. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method.

Interest income is recognized on the accrual basis using the effective yield method. Dividends receivable are recognized as income when they are declared.

On January 1, 2001 the Group recognized as a credit to retained earnings, the effect of the adoption of IAS 39, related to the accounting treatment of the investments available-for-sale for US\$4.5 million.

i) 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.

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

j) Assets seized -

Assets seized, included in Other assets, are valued at their market value.

Additionally, in accordance with SBS regulations, generic provisions are recorded as an appropriation to a special reserve from retained earnings.

k) Intangible assets -

Intangible assets included in Other assets, principally comprise software acquired and developed. Costs of software developed correspond to those directly associated with identifiable software controlled by the Group and will probably generate economic benefits exceeding costs beyond one year. They are amortized on the straight-line basis, using an annual rate of 20%.

l) Goodwill -

Goodwill has been established principally as the difference between the reference price for the acquisition of ASHC and PPS at the date of the exchange of shares (market value) and the corresponding fair value of the consolidated assets and liabilities of such entities, which amounted to US\$43.7 million, and is amortized using the straight-line method over a 20 year-period.

In addition, this account includes the goodwill originated by the acquisition of Bank de La Paz for US\$4.2 million which is amortized in a period of 5 years.

At each balance sheet date the Group assesses whether there is any indication of impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

m) 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.

n) Bonds issued -

Liabilities arising from the issuance of subordinated bonds, leasing bonds, mortgage bonds and mortgage notes are recorded at their face value and the corresponding interest is recognized in income as earned. Bond discounts determined at issuance are deferred and amortized over the term of the bonds by the interest method.



o) Provisions -

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The provision for employees' severance indemnities is based in the present value of the liabilities determined at the end of each year based on the current salary of each employee. In Peru, this indemnity should be deposited in authorized financial institutions selected by the employees. All payments made are considered as definitive.

p) Income tax and workers' profit sharing -

Current -

Income tax and workers' profit sharing (which corresponds to 5% of the taxable income in accordance with Peruvian tax legislation) are calculated and recorded based on taxable income under current tax legislation.

Deferred -

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 enacted at the date of the balance sheet. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that such change occurs.

The principal temporary differences are detailed in Note 15. The effect of the temporary differences is considered for the calculation of the workers' profit sharing.

Deferred income tax assets should be recognized when it is probable that sufficient future taxable profit will be available against which these temporary differences can be used. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

q) 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.

r) Plan of benefits for share options -

Since 1999, stock options were granted to certain executives and employees who have at least one year of service in Credicorp or any of its subsidiaries. The stock options were granted at the market price of the shares on the date of the grant and are exercisable at that price. Expense recognized in income for the year corresponds to the difference between strike price and the fair value of the shares, of such stock options which can be exercisable by the beneficiaries.

s) Fiduciary Activities -

Assets and income arising there from together with related undertakings to return such assets to customers are excluded from the consolidated financial statements where the Group acts in a fiduciary capacity such as nominee, trustee, or agent.

t) Derivative financial instruments -

Derivative financial instruments are initially recognized in the balance sheet at cost (including transaction costs) and subsequently are remeasured at their fair value. Fair values are obtained from market exchange rates or interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The difference between the strike price and its corresponding market value is recorded in income.

Forward transactions, while providing effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading with fair value gains and losses reported in income.

u) Cash and cash equivalents -

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including: cash and balances with central banks, overnight deposits and amounts due from banks.

v) Segment reporting -

Business segments are considered as principal segment and provide information for type of products or services that are subject to different risks and returns. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

w) Financial statements as of December 31, 2001 and 2000 -

The financial statements as of December 31, 2001 and 2000 include certain reclassifications for comparative purposes.

### 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, 2002 and 2001 the Group's assets and liabilities by currencies are as follows:

	<b>2002</b>				<b>2001</b>			
	<b>U.S. dollars US\$000</b>	<b>Peruvian new sol US\$000</b>	<b>Other US\$000</b>	<b>Total US\$000</b>	<b>U.S. dollars US\$000</b>	<b>Peruvian new sol US\$000</b>	<b>Other US\$000</b>	<b>Total US\$000</b>
<b>Assets:</b>								
Cash and due from banks	1,696,176	444,169	42,045	2,182,390	1,678,609	139,929	78,914	1,897,452
Trading securities	289,979	304,667	10,458	605,104	352,836	125,272	70,030	548,138
Loans	3,568,523	630,184	194,925	4,393,632	2,964,149	546,910	208,987	3,720,046
Other assets	<u>730,153</u>	<u>126,418</u>	<u>128,952</u>	<u>985,523</u>	<u>683,949</u>	<u>232,830</u>	<u>99,273</u>	<u>1,016,052</u>
	<u>6,284,831</u>	<u>1,505,438</u>	<u>376,380</u>	<u>8,166,649</u>	<u>5,679,543</u>	<u>1,044,941</u>	<u>457,204</u>	<u>7,181,688</u>
<b>Liabilities:</b>								
Deposits and obligations	4,812,437	1,361,467	207,296	6,381,200	4,249,766	977,329	316,263	5,543,358
Due to banks and correspondents	226,161	43,361	40,176	309,698	254,736	17,902	68,814	341,452
Bonds issued	385,550	98,005	-	483,555	191,748	72,940	-	264,688
Other liabilities	<u>545,443</u>	<u>29,809</u>	<u>43,268</u>	<u>618,520</u>	<u>486,676</u>	<u>121,894</u>	<u>27,000</u>	<u>635,570</u>
	<u>5,969,591</u>	<u>1,532,642</u>	<u>290,740</u>	<u>7,792,973</u>	<u>5,182,926</u>	<u>1,190,065</u>	<u>412,077</u>	<u>6,785,068</u>
Net position	<u>315,240</u>	<u>( 27,204)</u>	<u>85,640</u>	<u>373,676</u>	<u>496,617</u>	<u>( 145,124)</u>	<u>45,127</u>	<u>396,620</u>

As of December 31, 2002, the weighted average free market buying and selling exchange rates established by SBS were S/.3.515 and S/.3.513 per US\$1, respectively (S/.3.441 and S/.3.446 per US\$1 as of December 31, 2001, respectively).

### 4 CASH AND DUE FROM BANKS

As of December 31, 2002, Due from banks includes approximately US\$1,080 million corresponding to an overnight operation deposited in Central Bank of Reserve of Peru-BCRP (US\$1 billion as of December 31, 2001), which bears interest at an annual effective rate of 1.25% (2.29% as of December 31, 2001). In addition, this account includes approximately US\$414.1 million and S/.250.8 million (US\$214.3 million and S/.238.1 million as of December 31, 2001) related to the legal reserve that the 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 BCRP. The deposits in Peruvian new soles are subject to a minimum cash reserve of 6% and the

deposits in U.S. dollars are subject to a minimum cash reserve of 6% plus an additional cash reserve which averaged 30%. These additional cash reserves in U.S. dollars earn interest at a rate equivalent to the LIBOR three month rate less 1/8 of one percent.

## 5 TRADING SECURITIES

At December 31, this caption comprises:

	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>
Peruvian Central Bank Certificates	184,033	91,624
Peruvian Treasury Bonds	96,109	29,205
Corporate and leasing bonds	62,596	79,727
Treasury bonds of other countries	50,075	9,482
Debt issued by Central Banks of other countries	49,809	139,156
Bonds of international institutions	42,082	-
Mutual funds	36,314	27,602
Listed equity securities	15,128	29,797
Repos operations	23,895	-
Negotiable certificates of deposits	16,883	105,534
Investments in financial institutions of Bolivia	13,501	-
Negotiable notes	1,675	14,258
Investment issued by listed entities in Colombia	-	1,774
Other investments	<u>13,004</u>	<u>19,979</u>
	<u>605,104</u>	<u>548,138</u>

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 in local currency vary from 3.54% to 6.21% (4.5% to 13.94%, in 2001) which is determined by the BCRP at each auction.

Peruvian Treasury Bonds bear annual interest which vary from 6.53% and 10.37% with maturities between September 2003 and December 2015.

Corporate bonds for US\$55.1 million (US\$63.5 million as of December 31, 2001) have maturities between 2003 and 2011 and bear annual effective interest rates which vary between 13.56% to 3.46% for bonds issued in Peruvian new soles and 4.37% to 13.63% for bonds in U.S. dollars. Leasing bonds correspond to bonds in U.S. dollars for US\$7.4 million (US\$16.2 million as of December 31, 2001) with maturities in 2004 and bear annual effective interest rates which vary from 7.5% to 8%.

Treasury bonds of other countries include US\$17.5 million of securities issued by the government of the United States of America with maturities between July 2003 and June 2005. The annual interest rates vary from 2.90% to 5.91%.

Bonds of international financial institutions comprise debt securities issued by Corporacion Andina de Fomento which were acquired in the secondary market by the Group with maturities between February 2003 and March 2004. The annual interest rates vary from 6.75% to 8.87%.

Repos operations include transactions made with BCRP. They are debt securities given by the Group as guarantees of due to banks and correspondents (see Note 11); mature on January 2, 2003 and bear annual interest rates which vary from 3.06 % and 3.61 %.

## 6 LOANS

a) At December 31, this caption comprises:

	<b>2002</b>		<b>2001</b>	
	<b>US\$000</b>	<b>%</b>	<b>US\$000</b>	<b>%</b>
Loans	3,268,103	74	2,917,267	79
Discounted notes	180,314	4	156,041	4
Advances and overdrafts	169,132	4	45,501	1
Leasing receivables	491,666	11	333,840	9
Factoring receivables	62,302	1	56,616	2
Refinanced loans	330,842	8	268,626	7
Past due loans and under judicial collection (see paragraph e)	<u>406,135</u>	<u>9</u>	<u>350,835</u>	<u>9</u>
	4,908,494	111	4,128,726	111
Less: unearned interest	<u>( 90,831)</u>	<u>( 2)</u>	<u>( 64,247)</u>	<u>( 2)</u>
	4,817,663	109	4,064,479	109
Less: reserve for loan losses	<u>( 424,031)</u>	<u>( 9)</u>	<u>( 344,433)</u>	<u>( 9)</u>
	<u>4,393,632</u>	<u>100</u>	<u>3,720,046</u>	<u>100</u>

Interest rates on credits are set considering the rates prevailing in the market where the Group has its operations.

b) Interest rates on each product of credits portfolio are set by the Group considering the rates prevailing in the market. During year the main annual average interest rates were:

	<b>2002</b>				
	<b>Loans in local currency</b>		<b>Loans in United States dollars</b>		
	<b>Peru</b>	<b>Colombia</b>	<b>Peru</b>	<b>Colombia</b>	<b>Panama</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Commercial loans	7.5	11.8	7.1	4.2	7.5
Discounted notes	12.5	15.8	11.4	-	-
Advances and overdrafts	30.8	26.2	14.4	-	-
Leasing receivables	11.8	-	10.8	-	-
Factoring receivables	27.4	-	7.8	-	-
Consumer loans	47.9	25.1	20.6	-	-
Mortgage loans	-	20.4	11.8	-	-

	<b>2001</b>				
	<b>Loans in local currency</b>		<b>Loans in United States dollars</b>		
	<b>Peru</b>	<b>Colombia</b>	<b>Peru</b>	<b>Colombia</b>	<b>Panama</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Commercial loans	14.6	15.3	9.4	6.04	9.4
Discounted notes	24.5	19.3	14.5	-	-
Advances and overdrafts	46.2	29.4	16.4	-	-
Leasing receivables	8.5	-	11.5	-	-
Factoring receivables	20.5	-	10.2	-	-
Consumer loans	47.7	28.6	20.2	-	-
Mortgage loans	-	23.9	13.6	-	-

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

<b>Classification</b>	<b>2002</b>					<b>2001</b>						
	<b>Direct credits</b>		<b>Indirect credits</b>		<b>Total</b>	<b>Direct credits</b>		<b>Indirect credits</b>		<b>Total</b>		
	<b>US\$000</b>	<b>%</b>	<b>US\$000</b>	<b>%</b>		<b>US\$000</b>	<b>%</b>	<b>US\$000</b>	<b>%</b>		<b>US\$000</b>	<b>%</b>
Normal	3,543,152	74	863,475	90	4,406,627	76	2,864,087	70	619,844	87	3,483,931	73
Potential problems	456,056	9	66,488	7	522,544	9	441,323	11	71,335	10	512,658	11
Substandard	334,423	7	18,895	2	353,318	6	316,945	8	19,028	3	335,973	7
Doubtful	239,101	5	6,324	1	245,425	4	196,501	5	4,462	-	200,963	4
Loss	<u>244,931</u>	<u>5</u>	<u>1,748</u>	<u>-</u>	<u>246,679</u>	<u>5</u>	<u>245,623</u>	<u>6</u>	<u>976</u>	<u>-</u>	<u>246,599</u>	<u>5</u>
	<u>4,817,663</u>	<u>100</u>	<u>956,930</u>	<u>100</u>	<u>5,774,593</u>	<u>100</u>	<u>4,064,479</u>	<u>100</u>	<u>715,645</u>	<u>100</u>	<u>4,780,124</u>	<u>100</u>

The indirect credit portfolio is described in Note 18.

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

	<b>2002</b>		<b>2001</b>	
	<b>US\$000</b>	<b>%</b>	<b>US\$000</b>	<b>%</b>
Manufacturing	1,592,191	33	1,230,417	30
Commerce	617,491	13	572,825	14
Consumer loans	522,998	11	262,240	7
Utilities	302,976	6	159,389	4
Realty business and leasing services	281,753	6	211,286	5
Mining	227,879	5	321,409	8
Financial services	210,404	4	81,746	2
Communication, storage and transportation	209,174	4	194,613	5
Agriculture	158,500	3	159,420	4
Fishing	104,604	2	76,864	2
Construction	86,632	2	124,056	3
Education, health and other services	93,851	2	56,051	1
Other	<u>409,210</u>	<u>9</u>	<u>614,163</u>	<u>15</u>
	<u>4,817,663</u>	<u>100</u>	<u>4,064,479</u>	<u>100</u>

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

	<b><u>2002</u></b>		<b><u>2001</u></b>	
	<b>US\$000</b>	<b>%</b>	<b>US\$000</b>	<b>%</b>
Past due up to 4 months	82,259	20	54,291	15
Past due more than 4 months	91,028	23	94,340	27
In judicial collection	<u>232,848</u>	<u>57</u>	<u>202,204</u>	<u>58</u>
	<u>406,135</u>	<u>100</u>	<u>350,835</u>	<u>100</u>

In accordance with the Group's accounting policies, interest on past due loans and loans in judicial collection are recognized at their estimated recoverable value which is calculated using the interest rate that was used to discount the future cash flows for the purpose of measuring the recoverable amount of the principal. As of December 31, 2002 and 2001, the interest income and its respective allowance that had been recorded for these credits amount approximately to US\$28.3 million and US\$22.7 million, respectively.

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

	<b><u>For the years ended</u></b>		
	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Balances as of January 1	344,433	341,487	316,826
Provision	99,596	119,422	170,102
Recoveries of loans written-off	12,050	14,935	7,825
Provision of loans portfolio of BSCH	122,841	-	-
Transfers to special reserve	-	-	( 14,182)
Loans written-off	( 150,102)	( 124,690)	( 135,320)
Other	( 4,787)	( 6,721)	( 3,764)
Balances as of December 31	<u>424,031</u>	<u>344,433</u>	<u>341,487</u>

The Group recognizes possible losses on loans through a provision estimated in accordance with the policy described in Note 2-f).

The credit portfolio of BSCH was recorded at its net realizable value; the principal amount and the corresponding provision for loan losses are recorded in separate accounts for internal control purposes.

In 1999, on the basis of SBS authorization given to financial institutions in Peru, BCP and subsidiaries recorded a generic provision of the credit portfolio classified as normal for an amount of US\$23.9 million with a charge to shareholders' equity. In accordance with International Accounting Standards, in the year 2000, this situation was regularized, being constituted a special reserve in the net equity for generic provisions for loans and assets seized through legal action amounting to

approximately US\$9.4 million and US\$14.5 million (Note 9), respectively. Likewise, in the year 2000 Credicorp recorded an additional generic provision of US\$4.7 million and in 2001 recorded a recovery of this reserve of US\$6.7 million.

Management considers that the provision recorded at December 31, 2002 and 2001 is sufficient to cover any eventual loss on loans in the process of collection.

g) Purchase of credit portfolio -

On December 6, 2002, BCP subscribed the following contracts of purchase-sale of a credits portfolio with a Peruvian financial entity:

- Purchase of commercial credits portfolio up to US\$30 million, of which BCP acquired US\$24.8 million. In this contract BCP designates the Peruvian financial entity as the collection agent and it give a repurchase option of a part or the entirety of the transferred credits that will be able to be exercised up to March 6, 2003. Also, the Peruvian financial entity accepts to repurchase the past due loans in the first place. The price to pay for each repurchased credit will be the initial price of acquisition plus a premium equivalent to an annual effective interest rate of 5%. As of December 31, 2002 the balance of the commercial credit portfolio amounts to US\$10.2 million (S/.36 million), having exercised repurchases for US\$14.6 million.
- Purchase of a mortgage credits portfolio up to US\$100 million, of which BCP acquired US\$72.2 million. The conditions of the contract consider the collection by BCP of a disbursement commission of 0.5% as well as an amount withheld as a guarantee of 15%, which is deposited in a demand deposit in the BCP.

In this contract BCP designates the Peruvian financial entity as the collection agent and it gives a repurchase option of a part or the entirety of the transferred credits that will be able to be exercised up to March 6, 2003, extendable up to June 6, 2003 at the request of the Peruvian financial entity. The price to pay for each repurchased credit will be the initial price of acquisition plus a premium equivalent to an annual effective interest rate of 5%. As of December 31, 2002 the balance of the mortgage credit portfolio amounts to US\$71.2 million (S/.250 million).

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

i) Maturities of loans are shown in Note 20.

## **7 INVESTMENTS AVAILABLE-FOR-SALE**

At December 31, this caption comprises:



	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>
Corporate, subordinated and leasing bonds	304,771	303,964
Listed equity securities	99,124	39,753
Other equity securities	46,078	82,527
Investments in Peruvian foreign debt	44,172	49,467
Mutual funds	22,338	23,779
Investments in foreign debt of other countries	23,187	26,739
Bonds of agencies of the United States government	22,209	-
Debt issued by Central Banks of other countries	17,769	10,000
Investments in financial institutions in Bolivia	19,729	9,167
Negotiable notes	16,264	18,095
Other	<u>19,643</u>	<u>23,858</u>
	<u>635,284</u>	<u>587,349</u>

As of December 31, 2002 corporate bonds for US\$294.2 million, leasing bonds for US\$6.3 million and subordinated bonds for US\$4.3 million (US\$274.8 million, US\$24.8 million and US\$4.3 million, respectively, as of December 31, 2001) have been acquired at prices and rates prevailing in the market at the date of purchase. Annual interest rates vary from 6.5% and 8.05% (between 8.23% and 10.89% in 2001).

In 2001, PPS sold 10,684,831 shares of Union de Cervecerias Peruanas Backus y Johnston S.A. on the Lima Stock Exchange for US\$109.9 million, generating a tax-free gain of US\$30.7 million, which is included in the caption Net gain from sales of securities in the consolidated statement of income.

In November 1999, ICSA sold on the Lima Stock Exchange its participation in a company which managed a pension fund for US\$53,634,000, generating a gain of US\$46,567,000, which is included in the caption Net gain from sales of securities in the consolidated statement of income. The Group is responsible for up to the percentage of ownership that it sold for the liabilities, obligations, other responsibilities or contingencies that occurred prior to the date of transfer and were not recorded in the financial statements at that date. The responsibility is for two years as from the date of sale, except for taxes and labor and social liabilities which can be claimed until their date of prescription. As of December 31, 2002 the Group has not assumed any liabilities, obligations, responsibilities or contingencies related to this transaction.

Gains or losses on the sales of securities on the Lima Stock Exchange are non-taxable income for tax purposes.

Maturities of investments available-for-sale are shown in Note 20.

## **8 PROPERTY, FURNITURE AND EQUIPMENT AND ACCUMULATED DEPRECIATION**

The movement of the property, furniture and equipment and related accumulated depreciation for the year ended December 31, 2002 is as follows:

	<b>Beginning balances</b>	<b>Additions at cost/ applied to income</b>	<b>Additions for purchase of BSCH</b>	<b>Disposed and/or sales</b>	<b>Ending balances</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
<b>Cost -</b>					
Land	26,856	200	12,414	( 326)	39,144
Building and other constructions	248,822	3,188	15,547	( 1,816)	265,741
Installations	57,253	4,232	4,742	( 468)	65,759
Computer equipment and other	188,859	10,476	5,086	( 1,302)	203,119
Equipment	23,879	4,603	2,359	( 1,693)	29,148
Vehicles	<u>9,252</u>	<u>165</u>	<u>158</u>	<u>( 489)</u>	<u>9,086</u>
	<u>554,921</u>	<u>22,864</u>	<u>40,306</u>	<u>( 6,094)</u>	<u>611,997</u>
<b>Accumulated depreciation -</b>					
Building and other constructions	107,388	7,191	125	( 357)	114,347
Installations	31,823	4,168	86	( 518)	35,559
Computer equipment and other	137,273	14,728	75	( 1,315)	150,761
Equipment	15,725	3,278	154	( 1,696)	17,461
Vehicles	<u>3,842</u>	<u>277</u>	<u>20</u>	<u>( 455)</u>	<u>3,684</u>
	<u>296,051</u>	<u>29,642</u>	<u>460</u>	<u>( 4,341)</u>	<u>321,812</u>
<b>Net cost</b>	<u>258,870</u>				<u>290,185</u>

Banks, financial institutions and insurance companies located in Peru are not allowed to pledge their fixed assets.

## 9 OTHER ASSETS AND OTHER LIABILITIES

At December 31, this caption comprises:

	<b>2002</b>	<b>2001</b>
	<b>US\$000</b>	<b>US\$000</b>
<b>Other assets -</b>		
Interest, commissions and accounts receivable	118,035	155,113
Accounts receivable for reverse repos	5,917	21,133
Transactions in progress (a)	38,406	55,968
Deferred expenses (b)	44,878	42,462
Intangibles, net (c)	22,200	29,496
Assets seized, net (d)	108,999	80,015
Other	<u>15,402</u>	<u>15,171</u>
	<u>353,837</u>	<u>399,358</u>

	<u>2002</u> US\$000	<u>2001</u> US\$000
<b>Other liabilities -</b>		
Interest and other accounts payable	82,736	81,176
Taxes, salaries and other personnel expenses payable	24,940	15,252
Transactions in progress (a)	47,763	52,767
Deferred tax liabilities (Note 15)	12,227	14,342
Provision for contingencies (e)	11,942	14,628
Dividends pending payment (f)	-	15,893
Deferred income	29,053	27,356
Provision for legal lawsuits	8,049	-
Other	4,288	1,336
	<u>220,998</u>	<u>222,750</u>

- a) Transactions 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. Substantially all of these transactions do not affect the Group's income.
- b) Deferred expenses are those mainly related to prepaid taxes for income tax for approximately US\$21.8 million (US\$27.1 million as of December 31, 2001) which can be applied against income tax in future periods.
- c) Intangibles comprise basically software purchased.
- d) At December 31, 2002 and 2001, the caption Assets seized includes land, buildings and machinery and equipment received in payment of debts which were in judicial collection process and which have been recorded at values which approximate to those determined on the basis of technical appraisals made by independent professionals. This caption comprises:

	<u>2002</u> US\$000	<u>2001</u> US\$000
Assets seized	136,066	96,777
Provision	( 27,067)	( 16,762)
	<u>108,999</u>	<u>80,015</u>

The changes in the provision for assets seized are summarized as follows:

	<b>For the years ended December 31</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Balances as of January 1	16,762	14,702	32,728
Provision	15,094	11,025	18,987
Transfers to special reserve	-	-	( 14,477)
Amount recovered for sale of assets seized	( 4,789)	( 8,965)	( 24,704)
Other	-	-	2,168
Balances as of December 31	<u>27,067</u>	<u>16,762</u>	<u>14,702</u>

Additionally, as of December 31, 2002 and 2001 generic provisions amounting to US\$27.1 million have been recorded as required by SBS. These amounts have been recorded as appropriations to a special reserve in the shareholders' equity.

- e) The changes in the provision for contingencies are summarized as follows:

	<b>For the years ended December 31</b>		
	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Balances as of January 1	14,628	9,714	6,554
Provision (Note 16)	4,649	13,317	6,337
Deductions	( 7,335)	( 8,403)	( 3,177)
Balances as of December 31	<u>11,942</u>	<u>14,628</u>	<u>9,714</u>

This provision mainly comprises the provisions for probable losses to complement insurance coverage, which correspond to claims not covered by the insurance companies as well as provisions for lawsuits against the Group.

- f) Dividends pending payment as of December 31, 2001 correspond mainly to an extraordinary dividend related to the gain generated by the Group in the sale of the shares classified as investments available-for-sale (Note 7). These dividends were paid in January 2002.

**10 DEPOSITS AND OBLIGATIONS AND BONDS ISSUED**

a) At December 31, this caption comprises:

	<u><b>2002</b></u> <b>US\$000</b>	<u><b>2001</b></u> <b>US\$000</b>
Non-interest bearing deposits and obligations:		
In Peru	762,013	597,686
In other countries	<u>60,871</u>	<u>168,921</u>
	<u>822,884</u>	<u>766,607</u>
Interest bearing deposits and obligations:		
In Peru	4,436,685	3,220,601
In other countries	<u>1,121,631</u>	<u>1,556,150</u>
	<u>5,558,316</u>	<u>4,776,751</u>
Total	<u><u>6,381,200</u></u>	<u><u>5,543,358</u></u>

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

	<u><b>2002</b></u> <b>US\$000</b>	<u><b>2001</b></u> <b>US\$000</b>
Saving deposits	1,700,878	1,550,975
Time deposits	2,589,221	2,311,418
Demand deposits	1,455,608	1,042,143
Severance indemnity deposits	552,174	528,168
Foreign currency bank certificates	<u>83,319</u>	<u>110,654</u>
	<u><u>6,381,200</u></u>	<u><u>5,543,358</u></u>

As of December 31, 2002 the total amount of the individual time deposits and bank certificates in excess of US\$100,000 are approximately US\$1,507.7 million and US\$33.1 million, respectively (US\$1,522 million and US\$29.7 million, respectively as of December 31, 2001).

c) According to the Group's policies, during 2002 and 2001, interest on demand and saving deposits and obligations were accrued using a growing scale of interest rate determined on the average deposits maintained. Balances below certain limits previously established for each product did not bear interest. Interest rates on each product of the credits portfolio are set by the Group considering the rates prevailing in the market. During years 2002 and 2001, the main annual average interest rates were:

<b>2002</b>					
	<b>In local currency</b>		<b>In United States dollar</b>		
	<b>Peru</b>	<b>Colombia</b>	<b>Peru</b>	<b>Colombia</b>	<b>Panama</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Saving deposits	1.3	6.3	0.6	-	-
Time deposits	5.3	9.1	1.8	-	4.8
Demand deposits	0.6	1.2	0.5	-	0.5
Severance indemnity deposits	3.4	-	1.9	-	-
Foreign currency bank certificates	-	-	1.7	-	-

<b>2001</b>					
	<b>In local currency</b>		<b>In United States dollar</b>		
	<b>Peru</b>	<b>Colombia</b>	<b>Peru</b>	<b>Colombia</b>	<b>Panama</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Saving deposits	4.3	6.3	2.0	-	-
Time deposits	10.9	12.9	4.2	-	6.7
Demand deposits	2.2	1.6	1.0	-	1.3
Severance indemnity deposits	7.2	-	3.7	-	-
Foreign currency bank certificates	-	-	4.1	-	-

d) The bonds issued comprise:

	<b>2002</b>	<b>2001</b>
	<b>US\$000</b>	<b>US\$000</b>
Leasing bonds	350,191	166,748
Corporate bonds	36,561	17,385
Mortgage bonds	28,454	25,000
Subordinated bonds	68,349	55,555
	<u>483,555</u>	<u>264,688</u>

Leasing bonds are issued in United States dollars with maturities between January 2003 and November 2010, bear an annual interest rate that fluctuates from 4.1% to 8.6% (between 3.8% to 9.5% in 2001) and are endorsed by assets granted in leasing transactions.

Corporate bonds are issued in Peruvian new soles with maturities between March 2004 and August 2006 and bear an annual fixed interest rate of 7.65% plus the Constant updated value established by BCRP and nominal interest rates that fluctuate between 6.38% and 6.75%.

Mortgage bonds are issued in United States dollars with maturities up to ten years and bear annual interest rates that fluctuate between 7.44% and 7.94% (7.5% and 7.9% in 2001) and are guaranteed by buildings acquired by home mortgage loans and the cash flows received from them during their amortization.

Subordinated debt corresponds to bonds issued in Peruvian new soles and U.S. dollars. The payment of the principal depends on the fulfillment of the obligations and do not have guarantees. The principal and the interest of the debt, with the prior authorization of SBS, can be destined to reconstitute losses when the entities enter into a liquidation process or when SBS judges it pertinent. These bonds bear an annual interest rate that fluctuates between 6.87% and 7.5% plus the Constant updated value and 8.25% plus the Daily readjustment rate determined by the BCRP (5.25% plus the Constant updated value and 7.25% plus the Daily readjustment rate in 2001), with maturities between August 2007 and October 2009.

e) Maturities of deposits and obligations and bonds issued are shown in Note 20.

## 11 DUE TO BANKS AND CORRESPONDENTS

At December 31, this caption comprises:

	<u>2002</u>			<u>2001</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	119,269	166,378	285,647	126,582	202,879	329,461
Promotional credit lines	<u>5,692</u>	<u>18,359</u>	<u>24,051</u>	<u>1,789</u>	<u>10,202</u>	<u>11,991</u>
	<u>124,961</u>	<u>184,737</u>	<u>309,698</u>	<u>128,371</u>	<u>213,081</u>	<u>341,452</u>

a) The balance of the liabilities with banks and correspondents corresponds to the following operations:

- Bank loans obtained by the Group principally for financing foreign trade and working capital amounting to US\$64.1 million and US\$71 million, respectively, (US\$119.4 million and US\$56.7 million, respectively in 2001).

During 2002, BCP paid banking and correspondents loans amounting to approximately US\$10 million (US\$104.1 million in 2001).

- Amount owed originating from a securitization operation, realized in November 1998, for up-to US\$100 million by Banco de Credito Overseas Limited, with maturity until November 2005, for the collections of the future inflows of BCP, corresponding 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 operation. 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 in a special account managed by Bankers Trust Company. This transaction bears an annual interest rate of 6.44%. As of December 31, 2002 and 2001 the securitization obligation amounted to US\$48.4 million and US\$62.5 million, respectively.

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.

- Amount owed originating from a securitization transaction entered into during January 2001 by BCP for up to US\$100 million, with maturity until January 2008, corresponding to the future collection of the orders of payment in United States dollars related to the transfers of funds received from banks located outside Peru associated with the Society for Worldwide Interbank Financial Telecommunications (Swift). In this transaction, ING Barings acted as trustee for the securitization transaction. The securitization proceeds were paid in January 2001 to the Group. This transaction bears a monthly interest rate that fluctuates between 2.17% and 6.28% (2.19% and 5.9% in 2001). As of December 31, 2002 and 2001 the balance of this obligation amounts to US\$78.2 million and US\$90.9 million, respectively.
- Amount due to BCRP for US\$23.9 million which is guaranteed with trading securities (see Note 5).

Due to banks and correspondents bear interest at international market rates that fluctuate between 2.45% and 4.16% (4.17% and 7.38% in 2001) and do not have specific guarantees. In addition, the credit agreements include certain covenants related to compliance of financial ratios and other specific conditions, which the Group considers have been fully complied with.

- b) Promotional credit lines represent loans granted to BCP by Corporacion Financiera de Desarrollo (COFIDE) related to credit lines granted by Corporacion Andina de Fomento and Banco Interamericano de Desarrollo, for promoting development in Peru and bear annual interest rates that fluctuate between 3.97% and 5.5%. These loans are guaranteed with a credit portfolio until for US\$18.4 million and US\$24 million as of December 31, 2002 and 2001, respectively, and include covenants specifying the use of funds, financial conditions that the borrower must maintain and other administrative matters.

Maturities of due to banks and correspondents are shown in Note 20.

At December 31, 2002 and 2001, the Group had credit lines available from correspondent banks totaling approximately US\$1,200 million and US\$1,600 million, respectively.

## **12 REINSURANCE PAYABLE**

In the ordinary course of its business PPS, Credicorp's subsidiary, engages in insurance activities, transfers reinsurance to other insurance companies to share the risk of 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 shared quotas, 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 reinsured assets.



Net premiums earned for the years ended December 31 are as follows:

	<b><u>Gross Amount</u></b>	<b><u>Ceded to other companies</u></b>	<b><u>Assumed from other companies</u></b>	<b><u>Net amount</u></b>	<b><u>Percentage of amount assumed on net premiums</u></b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	
<b>As of December 31, 2002</b>					
Life insurance	36,395	( 2,094)	268	34,569	0.77
Accident and health insurance	46,461	( 1,682)	15	44,794	0.03
Property and casualty insurance	<u>110,452</u>	<u>( 68,861)</u>	<u>4,264</u>	<u>45,855</u>	9.30
Total premiums	<u>193,308</u>	<u>( 72,637)</u>	<u>4,547</u>	<u>125,218</u>	3.63
<b>As of December 31, 2001</b>					
Life insurance	33,083	( 2,532)	452	31,003	1.46
Accident and health insurance	41,097	( 1,258)	12	39,851	0.03
Property and casualty insurance	<u>89,688</u>	<u>( 49,955)</u>	<u>1,617</u>	<u>41,350</u>	3.91
Total premiums	<u>163,868</u>	<u>( 53,745)</u>	<u>2,081</u>	<u>112,204</u>	1.85
<b>As of December 31, 2000</b>					
Life insurance	30,356	( 1,432)	307	29,231	1.05
Accident and health insurance	44,013	( 990)	12	43,035	0.03
Property and casualty insurance	<u>72,593</u>	<u>( 32,492)</u>	<u>1,028</u>	<u>41,129</u>	2.50
Total premiums	<u>146,962</u>	<u>( 34,914)</u>	<u>1,347</u>	<u>113,395</u>	1.19

### 13 SHAREHOLDERS' EQUITY

#### a) Common shares -

As of December 31, 2002, 2001 and 2000, the capital stock is represented by 94,382,317 outstanding common shares, with a par value of US\$5 each one.

#### b) Treasury stock -

Treasury stock corresponds to the nominal value of Credicorp's shares owned by Group companies, which amounts to 14,634,925 shares at December 31, 2002 (14,920,825 shares at December 31, 2001). The difference between the acquisition cost of US\$186.5 million and their par value of US\$73.2 million 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 up to at least 35% of their 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.

d) Special reserve -

This reserve comprises the generic provisions for loans of US\$7.5 million and for assets seized of US\$27.1 million, which have been recorded as required by SBS.

e) Retained earnings -

As of December 31, 2002 and 2001 Credicorp paid cash dividends of approximately US\$16 million and US\$8 million, respectively. In addition, in 2001 the Board of Directors agreed to distribute an extraordinary dividend of approximately US\$15.9 million related to the gain generated by the Group in the sale of the shares classified as investments available-for-sale (Note 9-f).

As from year 2003, dividends to be distributed in Peru in favor of shareholders different than entities domiciled in Peru are subject to a 4.1% income tax. This tax should be withheld and paid by the Group.

## 14 STOCK OPTION PLAN

The Group has a stock option plan for certain key executives and employees who have at least one year's service in Credicorp or any of its subsidiaries. The options expire after eight years and 25% of the shares granted may be exercised during each of the first four years of the plan. At the end of the fourth year and until the expiration date of the option, all or a portion of shares still outstanding under the plan may be exercised at any time. As of December 31, 2002 and 2001 only 1,250 shares had been acquired under the Stock Option Plan. The number of options outstanding and the option price of such shares at December 31, 2002 and 2001 are as follows:

<u>Year</u>	<u>Number of shares</u>	<u>Price of the option</u>	
		<u>2002</u>	<u>2001</u>
		US\$	US\$
1999	475,000	9.09	9.39
2000	534,000	10.25	10.50
2001	571,750	7.05	7.30
2002	575,000	8.73	-

In 2002 and 2001, the Group has registered a provision corresponding to the difference between the price of the option and the quoted price at the balance date for those options that could be executed. The quoted price of the Credicorp's shares in the Lima Stock Exchange as of December 31 2002 and 2001 was US\$9.4 and US\$8.75, respectively.

In 2002, the prices of the options were modified and informed to the executives of the Group.

## 15 TAX SITUATION

- a) Credicorp 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 27% of taxable income (as of December 31, 2001 the income tax rate was 30% which could be reduced to 20% for the re-invested portion of the taxable income of the subsidiaries).

ASHC and its subsidiaries are not subject to taxes in the Cayman Islands nor Panama. For the years ended December 31, 2002, 2001 and 2000, no taxable income was generated from 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>2002</u> %	<u>2001</u> %	<u>2000</u> %
Peruvian statutory tax rate	27	30	30
Increase (decrease) in the statutory tax rate due to:			
i) Increase (decrease) of the rate arising from loss or income of subsidiaries not domiciled in Peru	8	2	( 3)
ii) Non-taxable costs and income, net	<u>3</u>	<u>( 9)</u>	<u>2</u>
Effective income tax rate	<u>38</u>	<u>23</u>	<u>29</u>

- b) In 2002 and 2001 the deferred income tax has been calculated on all temporary differences applied at a combined rate of 30.65% (33.5% in 2000). Such combined rate is determined considering that the workers' profit sharing is considered deductible for income tax purpose. The income tax expense analysis as of December 31, 2002, 2001 and 2000, is as follows:

	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>	<u>2000</u> <u>US\$000</u>
Current:			
Peruvian	32,009	23,266	5,565
In other countries	<u>399</u>	<u>347</u>	<u>402</u>
	32,408	23,613	5,967
Deferred:			
Peruvian	<u>220</u>	<u>( 2,056)</u>	<u>3,735</u>
Total	<u>32,628</u>	<u>21,557</u>	<u>9,702</u>

A portion of the Group's deferred tax asset arises from the generic provisions for contingencies 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' profit sharing) 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:

	<u>As of December 31,</u>	
	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>
<b>Asset</b>		
Reserve for loan losses	5,693	2,130
Reserve for contingencies	4,462	3,591
Tax benefits and other	567	3,078
Deferred tax loss carry-forward	<u>2,136</u>	<u>2,542</u>
Total deferred tax assets	12,858	11,341
Tax loss carry-forward of ASCH-Miami	4,831	5,049
Provision of deferred tax corresponding to the tax loss carry-forward	<u>( 4,831)</u>	<u>( 5,049)</u>
Net deferred income tax assets	<u>12,858</u>	<u>11,341</u>
<b>Liabilities</b>		
Fixed assets	( 8,412)	( 10,865)
Intangibles	( 5,621)	( 7,508)
Leasing operations	( 4,430)	( 4,571)
Provision for assets seized	( 2,131)	( 2,131)
Other	<u>(4,491)</u>	<u>( 608)</u>
Deferred income tax liabilities	<u>(25,085)</u>	<u>(25,683)</u>
Net deferred income tax liabilities	<u>(12,227)</u>	<u>(14,342)</u>

- c) As of December 31, 2002 and 2001, ASHC's Miami agency had United States federal tax loss carry-forwards available to reduce future taxable income, if any, of approximately US\$17.9 million and US\$18.7 million, respectively, which expire up to 2020. As of December 31, 2002 and 2001, the Miami Agency did not have any net deferred tax assets reflected on its financial statements, due to the uncertainty regarding the Agency's ability to generate future federal and state taxable income needed to utilize the net deferred tax assets, which primarily relate to the United States federal tax loss carry-forward and the allowance for loan losses.
- d) The Peruvian tax authorities have the right to review and, if necessary, amend the annual tax returns of the Peruvian subsidiaries. Fiscal years 2000 through 2002, inclusive, are pending review by the tax authorities. Any 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 Management, it is not expected that any additional assessments will be determined in amounts considered significant to the consolidated financial statements.

## 16 OTHER INCOME AND EXPENSES

For the three years ended December 31, 2002, these captions comprise:

	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>	<u>2000</u> <u>US\$000</u>
<b>Other income -</b>			
Real estate rental income	687	877	1,168
Income from the sale of assets seized	146	2,142	11,834
Income from the sale of fixed assets	424	271	3,276
Other	<u>10,394</u>	<u>10,814</u>	<u>11,725</u>
	<u>11,651</u>	<u>14,104</u>	<u>28,003</u>
<b>Other expenses -</b>			
Commissions	10,449	10,537	5,748
Provision for contingencies (Note 9-e)	4,649	13,317	6,337
Expenses of prior years	2,202	3,108	845
Provisions for other account receivables	4,127	5,862	3,666
Other fees for advisory services received	198	372	1,259
Other	<u>6,126</u>	<u>1,423</u>	<u>3,262</u>
	<u>27,751</u>	<u>34,619</u>	<u>21,117</u>

## 17 EARNINGS PER SHARE

The earnings per common share have been determined as follows:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Number of outstanding shares:			
Common shares	94,382,317	94,382,317	94,382,317
Less: treasury shares	(14,634,925)	(14,920,825)	(14,261,000)
Total outstanding shares	<u>79,747,392</u>	<u>79,461,492</u>	<u>80,121,317</u>
Net income (in thousands of United States dollars)	<u>42,383</u>	<u>54,513</u>	<u>17,696</u>
Earnings per share (in United States dollars)	<u>0.53</u>	<u>0.69</u>	<u>0.22</u>

## 18 OFF-BALANCE SHEET ACCOUNTS

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

	<u>2002</u> <u>US\$000</u>	<u>2001</u> <u>US\$000</u>
Contingent accounts -		
Contingent credits		
Guarantees and performance bonds	816,844	680,335
Export letters of credit	21,503	6,631
Import letters of credit and other	<u>118,583</u>	<u>28,679</u>
	956,930	715,645
Other contingent accounts	<u>275,306</u>	<u>225,233</u>
	<u>1,232,236</u>	<u>940,878</u>
Other off-balance sheet accounts -		
Collateral accepted and guarantees received	7,542,219	5,545,177
Collections on behalf of third parties	1,244,579	1,831,906
Securities in custody	4,953,725	4,141,384
Loans written-off	1,543,907	1,018,055
Leasing transactions	1,752,781	604,846
Assigned value of goods in trusteeship	640,256	295,909
Tax value of assets	316,866	299,332
Other	<u>2,257,921</u>	<u>1,237,253</u>
	<u>20,252,254</u>	<u>14,973,862</u>
Total	<u>21,484,490</u>	<u>15,914,740</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 transactions. Risks associated with these credits are reduced by the participation of third parties.

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

#### **Fiduciary activities -**

The Group provides investment management to third parties which involve the Group in allocation, purchase and selling decisions of investments on behalf of these third parties. Those assets that are held in a fiduciary capacity are not included in the consolidated financial statements.

Assets managed on behalf of customers of the Group comprise buildings and future cash flows of collections. As of December 31, 2002, the assigned value of the financial assets under administration amounts to approximately US\$640 million (US\$295.9 million in 2001).

In addition, as of December 31, 2002 the net equity of the investment mutual funds managed by the subsidiaries of the Group amount to approximately US\$904.8 million (US\$696.4 million in 2001).

## **19 FINANCIAL INFORMATION BY INDUSTRY AND GEOGRAPHICAL AREA**

The Group is organized on the base of two main lines of business: banking and insurance.

The banking business includes services related with loans and other credit facilities to corporate clients, consumer and mortgage credits, debit and credit cards, savings and deposits, overdrafts, custody services, among others.

The insurance business includes the issuance of policies of insurance to cover claims that clients can suffer, such as fires, vehicles, transport, personal accidents and life insurance, among others.

Other activities developed by the Group comprise intermediation activities in the Peruvian stock market, trusteeship and administration of funds.

The operations between the business segments are carried out under normal terms and conditions of business.

The following table presents the Group's financial information by industry (primary segment) and geographical area (secondary segment) for the three years ended December 31, 2002:

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

	<u>External revenues</u>	<u>Revenues from other segments</u>	<u>Eli- mina- tions</u>	<u>Total revenues</u>	<u>Opera- ting in- come (*)</u>	<u>Total assets</u>	<u>Fixed assets</u>	<u>Deprecia- tion and amortization</u>	<u>Other provi- sions (**)</u>
<b>2002 -</b>									
Banking	697	38	( 38)	697	336	7,658	257	33	114
Insurance	145	12	( 12)	145	43	408	31	4	-
Brokerage and other	26	76	( 76)	26	2	551	2	4	-
Consolidated total	<u>868</u>	<u>126</u>	<u>( 126)</u>	<u>868</u>	<u>381</u>	<u>8,617</u>	<u>290</u>	<u>41</u>	<u>114</u>
<b>2001 -</b>									
Banking	835	38	( 38)	835	364	6,628	221	34	130
Insurance	151	11	( 11)	151	15	395	33	4	-
Brokerage and other	52	77	( 77)	52	12	559	5	5	-
Consolidated total	<u>1,038</u>	<u>126</u>	<u>( 126)</u>	<u>1,038</u>	<u>391</u>	<u>7,582</u>	<u>259</u>	<u>43</u>	<u>130</u>
<b>2000 -</b>									
Banking	919	49	( 49)	919	334	6,140	229	36	189
Insurance	124	7	( 7)	124	21	261	34	4	-
Brokerage and other	50	5	( 5)	50	40	1,226	1	4	-
Consolidated total	<u>1,093</u>	<u>61</u>	<u>( 61)</u>	<u>1,093</u>	<u>395</u>	<u>7,627</u>	<u>264</u>	<u>44</u>	<u>189</u>

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

	<u>2002</u>			<u>2001</u>			<u>2000</u>		
	<u>Total reve- nues</u>	<u>Opera- ting in- come (*)</u>	<u>Total assets</u>	<u>Total reve- nues</u>	<u>Opera- ting in- come (*)</u>	<u>Total assets</u>	<u>Total reve- nues</u>	<u>Opera- ting in- come (*)</u>	<u>Total assets</u>
Peru	714	332	6,796	788	304	5,325	808	284	4,584
Panama	2	2	72	2	2	23	2	2	80
Cayman Islands	43	8	706	87	13	1,018	120	42	1,686
Bolivia	57	29	475	80	43	656	79	37	713
Republic of El Salvador	-	-	-	19	7	-	22	5	189
Colombia	46	9	280	52	20	395	46	22	226
United States of America	6	1	288	10	2	165	16	3	149
Consolidated total	<u>868</u>	<u>381</u>	<u>8,617</u>	<u>1,038</u>	<u>391</u>	<u>7,582</u>	<u>1,093</u>	<u>395</u>	<u>7,627</u>

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

(\*\*) Other provisions correspond to provisions for asset seized and reserve for loan losses.



## 20 FINANCIAL INSTRUMENTS

By its nature the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates whilst maintaining sufficient liquidity to meet all claims that might fall due.

The Group also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers with a range of credit standings. Such exposures involve not just on-balance sheet loans and advances but the Group also enters into guarantees and other commitments such as letters of credit and performance bonds.

The Group also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. Foreign exchange exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

### Market risks -

The Group is exposed to market risks in the normal course of its operations. The Management is aware of the existing conditions in each market where Credicorp has operations. The Management, on the basis of its experience and expertise controls its liquidity risk, interest rate risk, currency risk and credit risk as follows:

### Liquidity risk -

The Group manages its liquidity by a matching of assets and liabilities as follows:

	<b>Due within 1 year US\$000</b>	<b>One year to 5 years US\$000</b>	<b>Over 5 years US\$000</b>	<b>Past due loans and in judicial collection US\$000</b>	<b>Provision US\$000</b>	<b>Total US\$000</b>
<b>As of December 31, 2002 -</b>						
<b>Assets -</b>						
Cash and due from banks	2,182,390	-	-	-	-	2,182,390
Trading securities	414,298	121,554	69,252	-	-	605,104
Loans	3,005,084	934,179	472,264	406,136	( 424,031)	4,393,632
Investments available-for-sale	154,197	227,506	253,581	-	-	635,284
	<u>5,755,969</u>	<u>1,283,239</u>	<u>795,097</u>	<u>406,136</u>	<u>( 424,031)</u>	<u>7,816,410</u>

	<b>Due within 1 year US\$000</b>	<b>One year to 5 years US\$000</b>	<b>Over 5 years US\$000</b>	<b>Past due loans and in judicial collection US\$000</b>	<b>Provision US\$000</b>	<b>Total US\$000</b>
<b>Liabilities -</b>						
Deposits and obligations	5,343,707	728,908	308,585	-	-	6,381,200
Debts to banks and correspondents	130,961	135,822	42,915	-	-	309,698
Bonds issued	<u>223,523</u>	<u>101,846</u>	<u>158,186</u>	<u>-</u>	<u>-</u>	<u>483,555</u>
	<u>5,698,191</u>	<u>966,576</u>	<u>509,686</u>	<u>-</u>	<u>-</u>	<u>7,174,453</u>

**As of December 31, 2001 -**

<b>Assets -</b>						
Cash and due from banks	1,897,452	-	-	-	-	1,897,452
Trading securities	532,544	15,594	-	-	-	548,138
Loans	2,501,301	927,419	284,924	350,835	( 344,433)	3,720,046
Investments available-for-sale	<u>49,745</u>	<u>318,545</u>	<u>219,059</u>	<u>-</u>	<u>-</u>	<u>587,349</u>
	<u>4,981,042</u>	<u>1,261,558</u>	<u>503,983</u>	<u>350,835</u>	<u>( 344,433)</u>	<u>6,752,985</u>

<b>Liabilities -</b>						
Deposits and obligations	4,486,174	875,621	181,563	-	-	5,543,358
Debts to banks and correspondents	128,371	100,280	112,801	-	-	341,452
Bonds issued	<u>107,717</u>	<u>58,405</u>	<u>98,566</u>	<u>-</u>	<u>-</u>	<u>264,688</u>
	<u>4,722,262</u>	<u>1,034,306</u>	<u>392,930</u>	<u>-</u>	<u>-</u>	<u>6,149,498</u>

**Interest rate risk -**

The Group is mainly engaged in providing short-term financing, especially to international customers. Resources for trading finance are mainly obtained from short-term liabilities, the interest of which are agreed at fixed and variable rates as prevailing in the international markets.

Loans, customer deposits and other financing are subject to risks derived from interest rate fluctuations. The interest rates are disclosed in Notes 6, 10 and 11.

**Currency risk -**

Most assets and liabilities are maintained in U.S. dollars.

**Credit risk -**

Credit risk is mainly controlled through the evaluation and analysis of separate transactions considering such aspects as credit concentration of economic groups, evaluation of economic sectors, portfolio foreseen losses, guarantees and requirements for working capital according to market risks.

Financial assets which show a potential credit risk are mainly cash and cash equivalents, interest bearing deposits in banks, trading securities, investments available-for-sale, loans and other assets. Cash and cash equivalents as well as time deposits are placed with prestigious financial institutions.

**Fair value -**

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 transactions, assuming the enterprise is a going concern.

IAS 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, financial instruments include both primary instruments, such as receivables, payables and equity securities and derivative instruments, such as financial options.

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' 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.
- Trading securities and investments available-for-sale are generally quoted. Interest earned on 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 values, because such loans are mainly of a short-term nature and are shown net of their respective provision for loan losses, which are considered by Management as the estimated amount recoverable at the date of the financial statements.

- 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. As a result, it is considered that their book value is similar to their market value.
- As disclosed in Note 18, the Group has various commitments to extend credit, open documentary credits and outstanding guarantees and it has received guarantees in endorsement of the granted credits. 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.

#### **Derivative instruments -**

Except for currency forwards, foreign currency futures and the “swaps” of interest rate, the Group does not enter into other agreements, generally described as derivative transactions, such as currency swaps or options. Currency forward contracts represent commitments to purchase or sell foreign and domestic currency. Foreign currency futures are contractual obligations to receive or pay a net amount based on changes in currency rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price. Risk arises from the possible inability of the counterparties to meet the terms of the contracts and from fluctuations in exchange rates. Since futures contracts are collateralized by cash or marketable securities and changes in the futures contract value are settled daily, the credit risk is negligible.

The contracts of swap of interest rate are agreements for which is agreed the exchange of variable interest rates by fixed interest rates, under terms and contractual conditions, established on the basis of the definitions and regulations elaborated by the International Swaps and Derivates Association, Inc. The risk arises every time that the projected level of the variable rate, during the term of the operation, will be superior to the swap rate, as well as for the non-compliance of the contractual terms of one of the parties.

The Group maintains strict control limits on net open derivative positions, ie. the difference between purchase and sale contracts, by both amount and term. At any one time the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Group (ie. assets), which in relation to derivatives is only a small fraction of the contract or notional value used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposure from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Group requires margin deposits from counterparties.

The notional amounts of forward contracts and futures provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. As of December 31, 2002 and 2001, the notional amounts of the outstanding contracts is approximately US\$530.6 million and US\$292.8 million, respectively, which have maturities for periods of less than one year and include forwards hedged for US\$269.5 million and US\$134.8 million, respectively. The fair value of the forward contracts assets and liabilities as of December 31, 2002 amount to approximately US\$8.2 million and US\$0.2 million, respectively (US\$8 million and US\$0.4 million, respectively, in 2001) which are included in the caption Other assets and Other liabilities, respectively. In addition, as of December 31, 2002 the notional amounts of the outstanding swap contracts amounted to US\$11 million.

## 21 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, loans and other credits to employees of the Group are as follows:

	<u>2002</u> US\$000	<u>2001</u> US\$000
Mortgage loans	16,114	18,804
Other loans	<u>4,797</u>	<u>4,593</u>
	<u>20,911</u>	<u>23,397</u>

As of December 31, loans and other contingent credits to related parties comprise:

	<u>2002</u> US\$000	<u>2001</u> US\$000
Direct loans	73,195	98,464
Contingent loans	<u>10,468</u>	<u>9,262</u>
	<u>83,663</u>	<u>107,726</u>

As of December 31, 2002 direct credits and contingent credits to related companies comprise approximately 1.52% and 0.22%, respectively (2.4% and 0.22%, respectively, as of December 31, 2001), of the total portfolio of direct credits of the Group, which are ranked in the following risk categories:

	<u>2002</u> <u>%</u>	<u>2001</u> <u>%</u>
Normal	34.8	55.1
Potential problems	46.3	27.9
Substandard	14.8	17.0
Doubtful	4.1	-
	<u>100.0</u>	<u>100.0</u>

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