
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1996

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-14014

CREDICORP LTD.

(Exact name of registrant as specified in its charter)

BERMUDA

(Jurisdiction of incorporation or organization)

Clarendon House

Church Street

Hamilton HM11

Bermuda

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

Common Shares, par value \$5.00 per share

New York Stock Exchange

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

None

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

None

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

Common Shares, par value \$5.00 per share..... 71,501,521

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

Yes X No

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

Item 17 ☐ Item 18 ☒

PRESENTATION OF FINANCIAL INFORMATION

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

Credicorp Ltd., a Bermuda limited liability company (together with its consolidated subsidiaries, “Credicorp”), maintains its financial books and records in U.S. Dollars and presents its financial statements in accordance with International Accounting Standards (“IAS”). For a discussion of certain differences between IAS and United States generally accepted accounting principles (“U.S. GAAP”), together with a reconciliation of net income and shareholders' equity to U.S. GAAP for Credicorp, see Note 18 to Credicorp's consolidated financial statements for the years ended December 31, 1994, 1995 and 1996 (the “Credicorp Consolidated Financial Statements”) included elsewhere herein. Because of the relative size of Banco de Crédito del Perú, a Peruvian corporation (together with its consolidated subsidiaries, “BCP”), compared to Credicorp, for consolidation purposes, BCP has been treated as the predecessor entity to Credicorp, and Atlantic Security Holding Corporation, a Cayman Islands corporation (together with its consolidated subsidiaries, “ASHC”), and El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros, a Peruvian corporation (together with its consolidated subsidiaries, “PPS”), have been treated as significant acquisitions by BCP and accounted for under the purchase method of accounting. BCP and PPS maintain their financial books and records in Nuevos Soles and present their financial statements in accordance with Peruvian generally accepted accounting principles (“Peruvian GAAP”), which are similar to IAS, except for the accounting of inflation and deferred taxes. ASHC maintains its financial books and records in U.S. Dollars and presents its financial statements in accordance with IAS. See “Item 8. Selected Financial Data—(b) Selected Financial Data.”

In addition to the Nuevo Sol amounts translated into U.S. Dollars for the purpose of preparing the Credicorp Consolidated Financial Statements (see Note 2 to the Credicorp Consolidated Financial Statements and “Item 8. Selected Financial Data—(b) Selected Financial Data”), this Annual Report contains certain Nuevo Sol amounts translated into U.S. Dollars at specified rates solely for the convenience of the reader. Neither of these translations should be construed as representations that the Nuevo Sol amounts actually represent such equivalent U.S. Dollar amounts or could be converted into U.S. Dollars at the rate indicated as of the dates mentioned herein or at all. Unless otherwise indicated (see specifically Note 2 to the Credicorp Consolidated Financial Statements and “Item 8. Selected Financial Data—(b) Selected Financial Data”), such U.S. Dollar amounts have been translated from Nuevos Soles at an exchange rate of S/2.58 = US\$1.00, the December 31, 1996 exchange rate set by the Peruvian *Superintendencia de Banca y Seguros* (the Superintendency of Banks and Insurance, or “SBS”). The average of the bid and offered exchange market rates published by the SBS for June 10, 1997 was S/2.659 per US\$1.00. The translation of amounts expressed in nominal or constant Nuevos Soles with purchasing power as of a specified date by the then prevailing exchange rate may result in presentation of U.S. Dollar amounts that differ from the U.S. Dollar amounts that would have been obtained by translating nominal or constant Nuevos Soles with purchasing power as of another specified date by the prevailing exchange rate on that specified date. See “Item 6. Exchange Controls and Other Limitations Affecting Security Holders—(a) Exchange Controls” for information regarding the average rates of exchange between the Nuevo Sol (or predecessor currencies) and the U.S. Dollar for the periods specified therein. The Federal Reserve Bank of New York does not publish a noon buying rate for Peruvian Nuevos Soles.

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

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PART I

ITEM 1. DESCRIPTION OF BUSINESS.

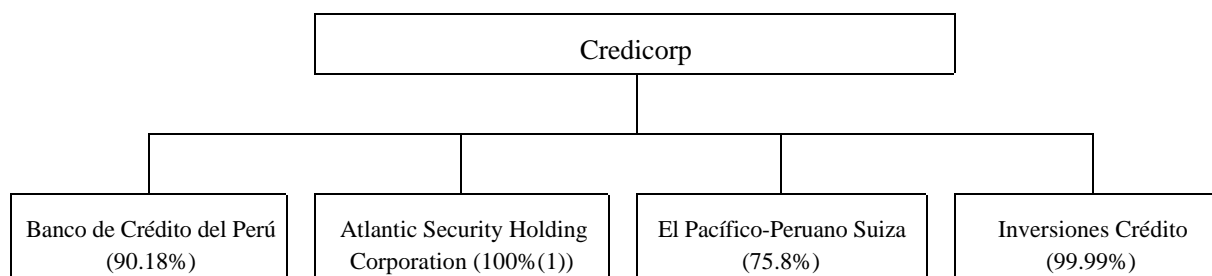
(a) General

Credicorp is the largest financial services holding company in Peru. Credicorp is engaged principally in commercial banking (including trade finance and leasing), capital market activities (including corporate finance, brokerage services, asset management, trust and custody, and proprietary trading and investment) and insurance (including commercial property damage, transportation and marine hull, automobile, life, health and pension fund underwriting insurance). As of December 31, 1996, Credicorp's total assets were US\$6.2 billion and shareholders' equity was US\$664.0 million, and for 1995 and 1996 net income was US\$88.1 million and US\$116.1 million, respectively. See "Presentation of Financial Information," the Credicorp Consolidated Financial Statements, "Item 8. Selected Financial Data" and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations." The following table presents certain financial information for Credicorp by principal business segment as of and for the year ended December 31, 1996 (see Note 17 to the Credicorp Consolidated Financial Statements):

	Year ended December 31, 1996		
	Total revenues	Operating income	Total assets
	<i>(U.S. Dollars in millions)</i>		
Commercial Banking	US\$805	US\$267	US\$5,601
Capital Markets	35	18	354
Insurance	91	34	293
Credicorp	US\$931	US\$319	US\$6,248

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

Credicorp was formed in 1995 for the purpose of acquiring through an exchange offer (the "Exchange Offer") the common shares of BCP, ASHC and PPS. Pursuant to the Exchange Offer, in October 1995 Credicorp acquired 90.1% of BCP; 98.2% of ASHC; and 75.8% of PPS. Credicorp acquired in March 1996, pursuant to an exchange offer, the remaining 1.8% outstanding shares of ASHC. Credicorp also owns 99.99% of Inversiones Credito which is a non-financial entity with assets of US\$27.6 million whose main investment is a 40% stake in the private Peruvian pension fund manager AFP Union. Additionally, in January of 1997, Credicorp purchased 99.99% of a Colombian banking concern, Banco Tequendama, with US\$390 million in assets and a minor presence in Venezuela. See "(m) Formation of Credicorp." The following tables show the organization of Credicorp and its principal subsidiaries as of December 31, 1996 and their relative percentage contribution to Credicorp's total assets, total revenues, net income and stockholders' equity as of December 31, 1996:



As of and for the year ended December 31, 1996(1)

	Total Assets	Total Revenue	Net Income (Loss)	Stockholders' Equity
Banco de Crédito del Perú	87.1%	90.9%	79.8%	66.6%
Atlantic Security Holding Corporation	8.4%	7.0%	15.7%	18.9%
El Pacífico-Peruano Suiza	3.9%	1.8%	5.8%	13.2%
Inversiones Crédito	0.6%	0.3%	(1.3)%	1.3%

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

Strategy

Credicorp's management intends to continue with its plan of integrating the operations of its principal business units where possible over the next few years, thus consolidating its position as Peru's leading provider of financial services. To date, a substantial number of previously identified operations and functions that were considered inefficient or redundant have been either consolidated, restructured or eliminated since the Exchange Offer; however, management expects the process of reorganization and the consolidation of its main business units to continue through 1998.

Over the past year management has focused on improving client service, especially at BCP. To this end, management has identified and reorganized its business units to better meet the needs of each particular client group while continuing to invest heavily in technology and human resources.

These client-oriented efforts were implemented over the course of 1996 and form part of the second stage of Credicorp's original integration plan, which is expected to be completed by year-end 1998.

By year-end 1997, management intends to culminate a three year investment process in technology which will leave BCP's distribution network fully integrated with completely new client server application systems. These integrated applications will serve as a base for future group synergies and efficiencies as originally contemplated in the Exchange Offer.

In the third and final stage of Credicorp's initial integration plan, which began in 1996, management intends to complete the integration of marketing, distribution and sales functions of its main subsidiaries. Based on initial efforts implemented over the past year, management believes that it will achieve significant distribution efficiencies by cross-selling products through BCP's nationwide branch network, particularly by

incorporating the personal insurance and pension fund businesses into BCP's sales and delivery system. Additionally, as financial margins in traditional wholesales lines continue to contract due to competitive pressures, management hopes that the increased demand in new retail lines will help offset overall deterioration in financial margins. Furthermore, in terms of operating efficiencies, management will initiate, as part of the third stage, an ongoing process of cost control and profit center management, which it considers fundamental to containing expenses and improving efficiency ratios. Management expects the third stage to be completed by year-end 1998.

Credicorp will be the principal vehicle for future acquisitions of financial entities by the group both within and outside of Peru. Credicorp may seek to broaden its financial operations in Peru through internal growth and acquisitions, as evidenced by its acquisition of an additional 20% interest in AFP Unión in early 1996. See “—(e) Pension Fund Management” and “—(m) Formation of Credicorp.” Additionally, Credicorp may seek to broaden its earnings base by expanding into select Latin American markets outside of Peru where its size and market knowledge provide it with a competitive advantage, as evidenced by its acquisition in January 1997 of Banco Tequendama, a Colombian banking entity, for US\$48.01 million. See “—(m) Formation of Credicorp.” This is a continuation of BCP's strategy, as evidenced by its purchase in 1993 of BCB and its strategic partnership with Banco de Crédito e Inversiones of Chile, announced in December 1995. See “—(b) Commercial Banking.” Credicorp reviews potential acquisition candidates from time to time, and may acquire or form other strategic relationships with companies to the extent consistent with Credicorp's strategy.

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

(b) Commercial Banking

The majority of Credicorp's commercial banking business is carried out through BCP, Credicorp's largest subsidiary and the largest and oldest bank in Peru. At December 31, 1996, BCP ranked first among Peruvian banks with S/14.0 billion (US\$5.4 billion) in total assets, S/9.2 billion (US\$3.6 billion) in loans, S/10.8 billion (US\$4.2 billion) in deposits and S/1,164 million (US\$451 million) of shareholders' equity. Net income for 1995 and 1996 was S/219.8 million (US\$85.2 million) and S/271.8 million (US\$105.4 million), respectively. As of December 31, 1996, BCP's loans represented approximately, 27.7% of the Peruvian banking system and BCP's deposits represented approximately 29.4% of the Peruvian banking system, increasing from 26.8% and 28.6% as of December 31, 1995, respectively. At December 31, 1996, BCP had the largest branch network of any commercial bank in Peru with 206 branches in Peru, including 111 in Lima and the adjoining city of Callao. BCP also operates a foreign branch in New York and three representative offices in Bogota, Buenos Aires and Santiago de Chile. In addition, BCP has a Bahamian banking subsidiary. See “Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations.”

Credicorp's commercial banking business is also carried out by ASHC, which principally serves Peruvian private banking customers through offices in Panama, Miami and Lima. At December 31, 1996, ASHC had US\$881.8 million in total assets and shareholders' equity of US\$267.9 million (compared with US\$702.5 million and US\$235.1 million, respectively, at December 31, 1995). ASHC's net income increased to US\$35.6 million in 1996 from US\$25.4 million in 1995, which in turn increased from US\$1.7 million in 1994. The significant increase from 1995 to 1996 was the result of unrealized gains on ASHC's securities portfolio. Loans outstanding, net of provisions, in ASHC's portfolio totaled US\$235.6 million, US\$296.9 million and

US\$274.1 million at December 31, 1994, 1995 and 1996, respectively, representing an increase of 26.0% between 1994 and 1995 and a decrease of 7.7% between 1995 and 1996. Deposits grew 18.3% to US\$501.9 million at December 31, 1996 from US\$424.3 million at December 31, 1995, which in turn had increased 17.7% from US\$360.5 million at December 31, 1994. Third party assets under management increased significantly in 1996 from US\$135.3 million to US\$226.7 million as a result of improved returns in the Latin American financial markets. ASHC's loan portfolio quality improved with a reduction of past due loans as a percentage of total loans from 0.5% in 1995 to 0.0% in 1996, while reserves for possible loan losses to past due loans remained at US\$7.2 million between 1995 and 1996.

In addition, Credicorp conducts commercial banking activities in Bolivia through Banco de Credito de Bolivia ("BCB"), the fifth largest full service commercial bank operating in Bolivia in terms of deposits with, as of December 31, 1996, US\$287.6 million in assets (an increase of 29.4% from US\$222.2 million in 1995), US\$194.2 million in loans (an increase of 30.6% from US\$148.7 million in 1995), US\$164.2 million in deposits (an increase of 10.5% from US\$148.6 million in 1995), and shareholders' equity of US\$20.5 million (an increase of 34.0% from US\$15.3 million in 1995). BCB's net profits increased 42.3% from US\$0.8 million in 1995 to US\$1.2 million in 1996. The quality of BCB's loan portfolio improved during 1996 and past due loans as a percent of total loans declined from 4.2% in 1995 to 3.9% in 1996. As of December 31, 1996, BCB operated 21 branches located throughout Bolivia. The results of BCB have been consolidated in the BCP financial statements since the date of acquisition in November 1993.

In December 1995, BCP announced that it had reached a strategic agreement with Banco de Crédito e Inversiones, a Chilean bank, to establish a long-term strategic partnership in the Peruvian and Chilean mass consumer credit markets and provided for the formation of joint venture corporations in Peru and Chile that would be owned 55% by the local participant and 45% by the foreign participant. The Peruvian subsidiary was formed under the name *Solución Financiera de Crédito* ("Solucion"), which started operating in August 1996 with US\$10.0 million in total capital. At December 31, 1996, Solucion had total assets of US\$12.0 million and total loans of US\$5.1 million.

As of January 1997, Credicorp also carries out commercial banking operations in Colombia and, to a lesser extent, Venezuela through Banco Tequendama. See "— (m) Formation of Credicorp."

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

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

(i) *Wholesale Banking*

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

BCP's Wholesale Banking division has traditionally generated the majority of BCP's loans. BCP estimates that approximately 72.9% of its loans and 90.0% of its other extensions of credit (primarily guarantees and letters of credit) at December 31, 1996 were to customers of its Wholesale Banking division. BCP has the largest capital base of any Peruvian bank, which provides it with more resources than any other Peruvian bank to address the financing needs of its corporate clients. See “—(i) Competition.” Due to the fact that until recently Peruvian companies have not been able to access international sources of credit, BCP has established longstanding client relationships with virtually all of the major industrial and commercial groups in Peru. BCP's Wholesale Banking division provides its customers with short- and medium-term, local and foreign currency loans; foreign trade-related financing; and lease financing. BCP's Wholesale Banking division is divided into: corporate banking, which services companies with annual revenues in excess of US\$15 million; corporate finance, which provides underwriting and financial advisory services to corporate and middle market clients; medium term lending, which provides medium-term loans to Peruvian companies; and electronic banking, which provides electronic banking services to assist corporations with the daily management of their treasury cash flow. The Corporate Finance and Leasing (Credileasing) areas have been incorporated into the BCP's Wholesale Banking division since the first half of 1996.

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

Corporate Banking

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

ASHC's Corporate Banking division makes working capital and bridge loans. As of December 31, 1996, approximately 78.6% of ASHC's loans were to Peruvian companies, an additional 2.2% were to companies in the United States, and the remainder were to borrowers in Latin American countries other than Peru.

Medium Term Lending and Lease Finance

Credicorp also conducts, primarily through BCP's Medium Term Lending area, medium-term lending

and lease financing operations. As of December 31, 1996, BCP had outstanding S/978.7 million (US\$379.3 million) in medium-term loans, which includes S/456.0 million (US\$176.7 million) in lease financing operations, representing increases of 60.9% and 84.1%, respectively, as compared to December 31, 1995. As of December 31, 1996, the balance of medium-term loans outstanding was US\$207 million, which included resources available from a US\$109 million credit line of the Inter-American Development Bank made available to the banking system via the Peruvian development financing company *Corporación Financiera de Desarrollo* ("COFIDE"). BCP's Medium Term Lending area accounted for 56% of the funds disbursed in Peru under such line. The Structured Finance unit of Medium Term Lending has been an active lender and financial advisor to Peru's mining sector, for which BCP arranged approximately 70 facilities totaling almost US\$100 million during 1996. In April 1997, BCP's Medium Term Lending unit successfully structured and managed a US\$110 million international loan syndicate for *Sociedad Minera Cerro Verde, S.A.*, a leading Peruvian copper producer owned by Cyprus Amax Metals Company of the United States. In such transaction, BCP acted as the exclusive arranger and administrative agent with ABN-Amro Bank and Toronto Dominion Bank. This syndicated loan was the first of its type made to a Peruvian entity in over two decades.

Credicorp performs its leasing operations through a subsidiary of BCP, Credito Leasing ("Credileasing"). BCP's lease finance business is currently the second largest in Peru, with an estimated market share of 20.1% at December 31, 1996. Credileasing assumed the leasing assets of BCP's *Financiera de Crédito del Peru*, and began operating in August of 1996. The principal means of financing for Credileasing is through the issuance of specific leasing bonds, of which a total of S/154.8 million (US\$60.0 million) had been issued as of December 31, 1996. Management estimates that Credileasing's market share in Peru was approximately 24% in 1996. Leasing customers are primarily companies engaged in manufacturing, commerce and fishing activities, who use the proceeds to obtain such items as machinery, equipment, and vehicles. Credicorp's leasing business has increased significantly since the formation of Credileasing. By December 31, 1996, leasing operations totaled S/566.3 million (US\$ 219.5 million), 70% of which were recorded on the books of Credileasing.

In addition to its regular sources of funds, BCP is an intermediary in several medium-term credit lines for project financings in certain economic activities for COFIDE and such international financial institutions as *Corporación Andina de Fomento* (Andean Development Corporation or "CAF") and the International Finance Corporation ("IFC").

International Trade Finance

Credicorp's International Trade Finance operations are focused primarily on providing short-term credits for international trade, funded with internal resources or with credit lines from foreign banks and institutions. Medium-term lines of credit funded by other countries' governmental institutions, such as Eximbank, are also provided. In addition, the International Trade Finance division earns fees by providing customers with letters of credit or international collections as well as from its foreign exchange business for clients. The International Trade Finance division is also in charge of promoting international trade activities, such as structuring Peruvian commercial missions overseas and introducing Peruvian businessmen to potential foreign clients and vice versa. In 1996, BCP's export facilities volume was US\$697.2 million, representing a 41.7% decrease from 1995 and 11.8% of total Peruvian exports of US\$5.9 billion in 1996. BCP's import facilities volume in 1996 was US\$905.4 million, representing a 3.3% decrease from 1995 and 11.5% of total Peruvian imports of US\$7.9 billion in 1996.

BCP has a large network of foreign correspondent banks. BCP's New York branch is also active in

providing trade finance services. ASHC's trade finance activities are conducted by its Corporate Banking division. ASHC has concentrated its extensions of credit on short-term trade transactions to Latin America. Although ASHC has in the recent past emphasized transactions with Peru, Credicorp expects that in the future ASHC will focus on other parts of Latin America while BCP focuses on Peru.

Middle Market Banking

Credicorp conducts middle market lending primarily through BCP, and, to a much lesser extent, through ASHC. The Middle Market Banking division of BCP has grown significantly in recent years and Credicorp expects this sector to continue to grow and increase in relative importance as the Peruvian economy grows. The Middle Market Banking division generally serves the same industries and offers the same products as Wholesale Banking; however, its focus is on providing working capital loans to customers, primarily secured by accounts receivable. In 1996, BCP reorganized its lending operations, transferring Middle Market Banking into a separate division in order to more efficiently offer the products and services that clients in this market segment require.

Credicorp sees significant lending opportunities to middle market businesses, particularly in Peru's agriculture, fishing and construction industries, where special emphasis has been placed and specific task units have been created to attend the needs of these economic groups. The financial margins in the middle market continue to be attractive. Because of their size, middle market companies in Peru generally do not have access to the local or international capital markets or to credit from foreign banks. In addition, Credicorp believes that middle market companies have benefitted significantly from the overall economic improvements in Peru over the past few years.

(ii) Retail Banking

Credicorp's retail banking activities are conducted by BCP and, to a much lesser extent, by Banco de Crédito de Bolivia ("BCB") in Bolivia, and, as of January 1997, by Banco Tequendama in Colombia and Venezuela. During the last three years, lending by BCP's retail units has grown significantly, particularly with respect to loans to small businesses and home mortgage loans. Retail Banking as a group accounted for approximately 27% of BCP's total loans at the end of 1996 versus 25% at the end of 1995. With the segmentation of its retail client-base, BCP is able to focus on the cross-selling of products and improving per-client profitability. Credicorp expects the Retail Banking businesses to be one of the principal growth areas for BCP's lending activities.

At BCP, Retail Banking operations are divided into two divisions, Consumer Banking and Personal Banking. The Consumer Banking division is in charge of servicing BCP's traditional retail client base, and has invested substantially during the past few years to improve delivery channels in order to provide better quality and more efficient service. The Personal Banking division manages small business banking, which targets companies with annual revenue of less than US\$750,000, and personal banking, which targets middle and upper income individuals. Small business banking provides primarily inventory and working capital loans, while personal banking consists primarily of cash credit through overdrafts. Personal banking is also in charge of mortgage lending and credit cards.

Small Business and Personal Lending and Services

Small business lending is the largest segment within BCP's Personal Banking operations and presents

significant opportunities for growth if the Peruvian economy continues to improve. The same is true for personal lending, including consumer loans, which represent a very attractive segment for expansion given the growing demand for consumer goods and the competitive interest rates and financing terms offered to this segment of the banking market. Products and services include overdrafts, promissory notes, discounted drafts, stand-by letters of credit, commercial letters of credit, and savings and term deposits. BCP also offers consumer loans such as car loans and, to a lesser extent, travel loans and home appliance loans.

Mortgage Lending

Credicorp expects BCP's mortgage lending business to continue to grow given the low levels of penetration in the financial market, the increasing demand for housing and the current economic outlook for controlled inflation and sustained GDP growth in Peru. BCP had S/267.4 million (US\$103.6 million) of outstanding mortgage loans at December 31, 1995 compared to S/476.4 million (US\$184.7 million) at the end of 1996, an increase of 78.2%.

Mortgage financing is available only to customers with minimum monthly income in excess of US\$900. BCP will finance up to 75% of the appraised value of a property where monthly mortgage payments do not exceed 30% of the stable net income. The maximum maturity of the mortgage loans BCP offers is 20 years. Within the mortgage lending business, BCP offers variable and fixed interest rates on home mortgage loans denominated in both U.S. Dollars and Nuevos Soles; however, BCP's mortgage portfolio is almost exclusively variable rate and U.S. Dollar-denominated.

Credit Cards

Credit cards were not widely used as a method of payment in Peru during the hyperinflationary years prior to 1992. Since that time the number of outstanding credit cards has been growing rapidly, in percentage terms, as inflation has fallen, and BCP expects strong demand for credit cards to continue. The number of active credit cards issued by BCP has increased steadily from 28,840 as of December 31, 1990 to 136,005 as of December 31, 1996.

BCP estimates that its credit cards account for almost half of the credit cards issued in Peru as of December 31, 1996, with the remainder being issued by other banks, companies such as Diners Club and, increasingly, department stores. Credit card loans at December 31, 1996 represented 2.6% of BCP's total loans.

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

All of BCP's credit cards are issued through Visa. BCP's total credit card billings as of December 31, 1996 were S/753.0 million (US\$291.9 million), and the credit balance as of December 31, 1996 was S/237.9 million (US\$92.2 million). At December 31, 1996, BCP's credit card portfolio had balances past due more than 90 days of approximately 4.2%. BCP is taking steps to improve its card approval and collection process. These measures include issuing cards only to persons with stable net monthly incomes above US\$500 and

developing better methods for verifying applicants' information and credit history. Additionally, BCP has developed a mathematical scoring system to better assess the risk-reward variables associated with consumer lending. In addition, a centralized collections unit has been created which utilizes automated systems to improve collections. See “—(iv) Credit Policy and Review.”

Consumer Finance

Credicorp, through a BCP subsidiary formed in July of 1996, operates Solucion, a mass consumer finance entity in Peru formed pursuant to the strategic agreement between BCP and Banco de Credito e Inversiones of Chile discussed above. Solucion offers lending products through direct sales calls and through small branches established throughout Lima.

(iii) *Credit Policy and Review*

Credicorp is in the process of integrating the credit policies and review procedures of its subsidiaries. Credicorp expects that all of its subsidiaries will adopt the policies currently followed by BCP.

Credicorp's General Manager is in charge of setting the general credit policies for the different business areas of Credicorp. These policies are set within the guidelines established by the Banking Law (as defined below) and SBS regulations, and the guidelines set forth by Credicorp's Board of Directors. The credit approval process is based primarily on an evaluation of the borrower's repayment capacity and on commercial and banking references. A corporate borrower's repayment capacity is determined by analyzing the historical and projected financial condition of the company and of the industry in which it operates. An analysis of the company's current management, banking references and past experiences in similar transactions, and the collateral to be provided, are other important factors in the credit approval process. For an individual borrower, the information that is presented by the prospective borrower is evaluated by a credit officer and the application is passed through BCP's scoring program. Success in the small business and personal lending areas depends largely on the ability to obtain reliable credit information about prospective borrowers. In this regard, BCP, together with several partners, formed a credit research company called Infocorp in November 1995. BCP is also taking steps to standardize the credit approval process.

Credicorp has a strictly enforced policy with respect to the lending authority of its loan officers and has in place procedures to ensure that these limits have been adhered to before a loan is disbursed. In addition, Credicorp is currently in the process of developing systems to control automatically compliance with the lending authority. To ensure that loan officers are complying with their lending authority, the credit department and BCP's internal auditors consistently examine credit approvals.

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

	Wholesale	Retail
	<i>(U.S. Dollars)</i>	
Loans supported by liquid collateral or not exceeding one year(1)		
Loan Officer	US\$ 180,000	US\$ 90,000
Chief Lending Officer	600,000	240,000
Area Manager	1,050,000	600,000

Senior Credit Officer	1,500,000	1,050,000
Loans supported by other collateral or exceeding one year(2)		
Loan Officer	60,000	30,000
Chief Lending Officer	200,000	80,000
Area Manager	350,000	200,000
Senior Credit Officer	500,000	300,000

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

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

In general, Credicorp is a secured lender. As of December 31, 1996, approximately 68% and 94% of the loan portfolio and the contingent credits, respectively, was secured by collateral. Liquid collateral is a small portion of the total collateral. In general, if Credicorp requires collateral for the extension of credit, it requires collateral valued at between 10% and 50% above the facilities granted. The appraisal of illiquid collateral, in particular real estate assets, machinery and equipment, is performed by independent experts when required for specific reasons. BCP's policy generally is to require that the appraised value of illiquid collateral exceed the loan amount by at least 20%. In cases where a borrower encounters difficulties, Credicorp seeks to obtain additional collateral.

The existence of collateral does not affect the loan classification process according to regulations in effect as of December 1996. However, the new banking law, Law 26702, permits a bank to place a loan with sufficient collateral in a higher (better) classification category collateral. If a borrower is classified as substandard or below, then Credicorp's entire credit exposure to that borrower is so classified. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(c) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio."

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

It is ASHC's policy to provide funding to customers on the basis of approved lines of credit and not on a case by case basis. ASHC's Credit Committee, which is comprised of ASHC's President, ASHC's five Senior Vice Presidents and ASHC's two Corporate Banking Vice Presidents, meets weekly to discuss the loan portfolio and to approve the extension or renewal of credit facilities for ASHC's Miami agency and to review facilities approved by the committee charged with overseeing extensions of credit by ASHC's Panama branch.

ASHC's loan officers operate within established credit limits ranging from US\$25,000 to US\$200,000. Regardless of whether an approved facility exists for a client, any transaction in excess of US\$200,000 requires the approval of senior management. In addition, all credit extensions are monitored by ASHC's

Corporate Banking division and reviewed in their entirety each year by ASHC's Credit Committee.

(iv) **Deposits**

Credicorp's deposit taking operations are led by BCP's Consumer and Personal banking divisions and ASHC's Private Banking division. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(c) Selected Statistical Information—Deposits."

The main objective of BCP's retail banking operations has historically been to develop a diversified and stable deposit base in order to provide a low cost source of funding. This deposit base has traditionally been one of BCP's important strengths. At December 31, 1996, BCP's deposits amounted to S/10.8 billion (US\$4.2 billion) reflecting an increase of 25.2% from 1995. BCP has historically relied on the more traditional, low-cost deposit sources such as demand deposits, savings and Severance Indemnity Deposits, or *Compensación por Tiempo de Servicio* ("CTS" deposits), which are deposits that employers must make by law on behalf of their employees, as severance contributions. At December 31, 1996, these core deposits represented 71.7% of BCP's total deposits. At the same time, term deposits and foreign currency certificates of deposit, especially U.S. Dollars, significantly increased due to market conditions that forced BCP to compete more aggressively for these types of deposits. BCP's extensive network of offices facilitates access to this type of stable and low cost source of funding. Additionally, BCP's corporate clients are an important source of funding for BCP. As of December 31, 1996, BCP's Wholesale Banking division accounted for approximately 23% of total deposits, of which 69% were demand deposits, 15% time deposits, and 14% savings. Of all deposits from BCP's wholesale banking division, most (59.4%) were foreign currency-denominated (almost entirely U.S. Dollars) and the balance (40.6%) were Nuevo Sol-denominated.

ASHC's Private Banking division's clients have traditionally provided a stable funding source for ASHC, as many are long time clients who maintain their deposits with ASHC. As of December 31, 1996, ASHC had approximately 5,500 customers. Currently, 95% of ASHC's private banking clients are Peruvian. In the future, the Private Banking division intends to diversify its customer base geographically. During 1996, ASHC's core deposit base continued to grow, increasing US\$77.6 million to US\$501.9 million as of December 31, 1996.

All Credicorp subsidiaries have programs in place to comply with the "know your customer" regulations in place in the countries in which they operate. Peru has long-standing laws criminalizing money laundering activities, and such laws were further strengthened in 1996 with the adoption of Law 26702, which incorporated the guidelines of the Organization of American States (OAS) directly into Peruvian law. Under Law 26702, the SBS has the authority to request detailed reports with respect to the movement of funds and the identity of depositors. Detailed regulations from the SBS are pending. In addition to the provisions under Peruvian law, BCP established an internal "know your customer" policy in 1995. As an additional precaution, ASHC will open accounts only for individuals or entities that are recommended by senior officers of ASHC or BCP. See "(iv) Credit Policies."

(c) **Capital Markets**

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

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

(i) ***Corporate Finance***

BCP's Corporate Finance area provides a wide range of underwriting and financial advisory services to corporate clients and middle market businesses and has a leading position in the local market. The Corporate Finance area has recently been incorporated into BCP's Wholesale Banking division. Management believes that this reorganization will enhance the effectiveness of BCP's Wholesale Banking division as the demands of Peru's larger corporations move away from loan-based operations toward capital market-based operations. Loan contribution for this area represented 33% of total BCP loans, of which 61% were granted as working capital loans for terms of less than one year. The composition of these loans was approximately 73% foreign currency-denominated (U.S. Dollars) and 26% Nuevo Sol-denominated.

BCP's Corporate Finance area was chosen by the Peruvian government to serve as coordinator for the largest privatization in Peruvian history, the sale of US\$1.2 billion in equity shares of *Telefonica del Peru* in 1996. The Peruvian retail tranche totaled approximately US\$279.9 million of which BCP was responsible for the sale of US\$130.8 million, or 46.7%.

In 1996, the Bank continued to be a leader in investment banking activities. In this capacity, BCP has acted as advisor to the Peruvian government for the privatization of Government-owned companies, as well as assisting companies with mergers and other financing and savings activities. Additionally, in 1996 BCP participated in the sale of shares of *Luz del Sur*, placing approximately 43.5% of all shares sold to the Peruvian retail market via the "citizens' participation program". Also, BCP has been involved in several other significant transactions, including the sale of corporate bonds by such companies as *Gloria S.A.*, *Universal Textil* and *Consortio Fabril- Pacifico*; the exchange of shares, from labor to common, of Southern Peru Copper Corporation; and the issuance of shares by *Compañía de Minas Buenaventura* in the international market.

Other capital markets transactions, primarily local currency bond issues with average maturities of 4.5 years totaling approximately US\$800 million, generated fee income of approximately US\$5.0 million in 1996.

(ii) ***Trading and Brokerage Services***

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

BCP's subsidiary, *Credibolsa Sociedad Agente de Bolsa S.A.* ("Credibolsa"), is the leading brokerage house on the Lima Stock Exchange. During 1996, Credibolsa had an equity trading volume of S/5.2 billion (US\$2.0 billion), an increase of 47.4% from 1995, representing 10.4% of the total trading volume on the Lima Stock Exchange. Credibolsa's trading volume was generated by domestic customers, both retail and institutional, and by foreign institutional clients as well as by Credicorp's proprietary trading. In an environment of low profitability and high competition, over the past year, Credibolsa has been able to increase its profitability by expanding its sources of revenues. In addition to providing basic brokerage services ,

Credibolsa serves as a local market advisor for specialized stock market transactions and is one of the principal agents in the equity offerings of recently privatized companies in Perú. During 1996, Credibolsa actively participated in the distribution in Peru of securities of Telefónica del Perú, Luz del Sul, Gloria, S.A. and Universal Textil (See "—Corporate Finance").

(iii) *Asset Management*

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

In June 1994, BCP created *Credifondo S.A., Sociedad Administradora de Fondos Mutuos de Inversión en Valores* ("Credifondo") to establish, advise and operate mutual funds in Peru. Credifondo began operating in June 1995 and as of December 31, 1996, Credifondo managed three separate funds; an equity fund, a U.S. Dollar-denominated bond fund and a Nuevo Sol-denominated bond fund. As of December 31, 1996, the equity fund had 200 participants and assets of S/2.66 million (US\$1.03 million); the U.S. Dollar-denominated bond fund had 1,897 participants and assets of S/154.34 million (US\$58.25 million); and the Nuevo Sol-denominated bond fund had 203 participants and assets of S/ 4.87 million (US\$1.9 million).

ASHC's Asset Management area, created in 1989, conducts ASHC's management of third party funds which, considering the aggregate of third party assets under management, had total assets under management of US\$264.0 million as of December 31, 1996 (a portion of which were BCP's funds), compared to US\$135.2 million as of December 31, 1995. Investment decisions for these funds are made by senior officers within ASHC and BCP, in accordance with guidelines of the Investment Committee.

(iv) *Proprietary Trading and Investment*

BCP's proprietary trading consists of trading and short term investments in securities, primarily Peruvian instruments. These short-term investments are primarily made to facilitate its corporate finance efforts. Treasury is in charge of the management of foreign exchange position and reserves and is also involved in analyzing liquidity and other asset/liability matters.

ASHC's trades for its own account primarily by making medium-term investments in fixed income and sovereign debt from Latin American emerging markets, principally Peru. At December 31, 1996, ASHS had approximately US\$46.7 million in these types of securities. ASHC generally utilizes its own funds for these activities rather than borrowings or deposits. ASHC also manages a US\$267.9 million portfolio of investment securities, of which ASHC's holdings in Credicorp are its largest investment, with a market value of approximately US\$138.0 million at December 31, 1996. Other than these shares, the portfolio is composed primarily of non-investment grade debt securities of U.S. public companies and, to a much lesser extent, includes private U.S. debt and equity issues. Such securities are subject to substantial volatility and there can be no assurance as to their future performance. ASHC's investment portfolio, as well as future purchases, sales, overall investment strategy and the general profile of the trading portfolio are reviewed weekly by an investment committee chaired by ASHC's President.

(v) *Trust and Custody*

Custody services provided by BCP include the physical keeping of securities and the payment of dividends and interest. In addition, BCP acts as paying agent for securities for which it does not keep custody. BCP is one of the few banks in Peru that qualifies to serve as a foreign custodian for U.S. mutual funds. Trust services include escrow, administration and representation services, supervision of transactions

done for its clients, and transfer settlement and payment services for local securities issues.

(vi) **Investments by PPS**

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

(d) **Insurance**

Credicorp conducts its insurance operations exclusively through PPS, which provides a broad range of insurance products. In 1996, the six most significant lines together constituted 72% of the total premiums written by PPS, and consisted of commercial property damage (including fire, earthquake and related coverage (but not personal injury, tort or other liability risk), transportation by land, air and sea of all types of goods ("transportation"), as well as property coverage for fishing and other vessels ("marine hull")), automobile, health, life and pension fund underwriting. PPS is the leading Peruvian insurance company, with a market share of 28% based on gross insurance premiums and 30.5% based on net premiums written in 1996.

Consolidated net income for 1996 was S/35.6 million (US\$13.8 million), 109.4% above net income of S/17.0 million (US\$6.6 million) for 1995. The increase in net profits from 1995 to 1996 is principally due to an increase in premiums written and net underwriting results, and to lower reinsured premiums and technical reserves. Operating expenses including provisions during 1996 were 19.1% of net premiums written, falling from 22.7% in 1995 and 23.7% in 1994.

Net underwriting results increased 27.7% to S/46.8 million in 1996. The ratio of net underwriting results (net claims to net premiums) remained at approximately 69.2% during both 1996 and 1995, mainly because increased claims in the lines of marine hull, pension fund benefits coverage, and health, were offset by improvements especially in the automobile line. Total premiums increased 8.3% to S/353.4 million during 1996 from S/326.4 million in 1995. Premiums written, net of reinsured premiums and of technical reserves, were S/227.0 million in 1996, increasing 21.4% over 1995.

PPS's business is highly concentrated, with the three largest and twenty largest customers representing 15.0% and 30.5%, respectively, of premiums written in 1996, and the ten largest brokers accounting for approximately 34.5% of total premiums. Accordingly, although PPS cedes to reinsures a substantial portion of its commercial property-casualty premiums, significant losses by one or more major customers could result in significant claims for PPS.

In the first quarter of 1997, PPS sold a 38% interest in *El Pacífico Vida*, its recently formed life insurance subsidiary, to a subsidiary of American International Group ("AIG"), for US\$5.3 million. Due to an April 1996 change in Peruvian tax law which removed the 18% value added tax on life insurance sold by

Peruvian providers, PPS has put an emphasis on growing its life insurance business. PPS expects to increase its life insurance sales in Peru in the next few years and believes that AIG's participation in *El Pacífico Vida* will provide the company with an advantage in competing for market share. Credicorp intends to distribute life insurance sold by *El Pacífico Vida* through BCP's branch network.

(ii) ***Underwriting, Clients and Reinsurance***

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

Nearly 33,500 of PPS's approximately 34,000 insureds accounted for only approximately 20% of premiums written in 1996, while the three largest and twenty largest clients represented approximately 16% and 37%, respectively. This concentration is attributable primarily to the relatively low premium levels of its personal insurance products compared to that of the commercial property line (where PPS traditionally has ceded to reinsurers substantially all premiums written).

PPS utilizes reinsurance to limit its maximum aggregate losses and minimize exposure on large risks. Reinsurance is placed with reinsurance companies based on evaluation of the financial security of the reinsurer, terms of coverage and price. PPS's principal reinsurers in 1996 were Munchener Ruck, AIU, Kolnische Ruck, Hannover Ruck and Christiana General INS. Premiums ceded to reinsurers represented 31.0%, 36.9% and 45.4% of premiums written in 1996, 1995 and 1994, respectively. PPS acts as a reinsurer on a very limited basis, providing its excess reinsurance capacity to other Peruvian insurers who are unable to satisfy their reinsurance requirements. Premiums for reinsurance written by PPS totaled S/109.4 million (US\$42.4 million) as of December 31, 1996.

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

(iii) ***Claims and Reserves***

Net claims paid as a percent of net premiums written (*i.e.* the net loss ratio) increased to 69.2% in 1996 from 69.0% in 1995 and 64.6% in 1994. The net loss ratio from automobile risks, which represented 17.9% of PPS's portfolio, decreased to 61.6% in 1996 from 84.1% in 1995, which partially offset increases in other insurance lines.

The net loss ratio from medical insurance continued to be high at 72.8% in 1996, increasing from 70.6% in 1995. The net loss ratio from private pension fund insurance increased from 83.7% in 1995 to 131.1% in 1996, principally due to increased provisions for claims in the process of being liquidated and for private pension fund claims, which increased in number from 132 in 1995 to 260 in 1996. Also, this growth was the result of the increase in number of quoted affiliates and in the average compensation. The casualty insurance risk also remained high, with net loss ratios of 93.2% in 1995 and 92.1% in 1996.

PPS is required by law to establish claims reserves in respect of pending claims in its property-casualty business; reserves for future catastrophic events affecting certain of its lines of business; reserves for future benefit obligations under its in-force life and accident insurance policies; and unearned premium reserves in

respect of that portion of premiums written that is allocable to the unexpired portion of the related policy periods (collectively, “Technical Reserves”).

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

Pursuant to SBS regulations, PPS establishes pre-event reserves for catastrophic risks with respect to earthquake coverages in the commercial property, business interruption, and engineering lines. As of December 31, 1996, such reserves must reach S/13.7 million (US\$5.3 million) by the year 1999. During 1995 and 1996, PPS set aside S/3.0 million (US\$1.2 million) and S/8.2 million (US\$3.2 million), respectively, of catastrophic reserves. PPS records as liabilities in its financial statements actuarially determined reserves calculated to meet its obligations under its life and accident policies and its pension fund underwriting business, using mortality tables, morbidity assumptions, interest rates and methods of calculation prescribed by law. PPS also establishes unearned premium reserves to cover the risks of policy lapse or termination prior to the end of the policy period in accordance with percentages established by the SBS.

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

(iv) ***Investment Portfolio***

PPS's net investment income and realized capital gains on invested assets together accounted for 9.1% and 12.9% of PPS's revenues for the years ending December 31, 1996 and 1995, respectively. As of December 31, 1996, the book value of PPS's investment portfolio (which includes PPS's investments in Cervecería Backus & Johnston (“Backus”) and Credicorp discussed below) was S/330.9 million (US\$128.3 million), with S/187.3 million (US\$72.8 million) invested in securities, primarily common stocks, and S/143.1 million (US\$55.5 million) invested in real estate and other invested assets. As of such date, the market value of the portfolio was S/536.9 million (US\$208.1 million), of which S/319.5 million (US\$123.9 million) related to PPS's common stock portfolio.

PPS's two single largest equity investments, which as of December 31, 1996 were a S/168.7 million (US\$65.3 million) investment in Backus and a S/93.8 million (US\$36.3 million) investment in Credicorp, each expressed in market values, together constituted over 48.9% of the market value of its investment portfolio. See “Item 9. Managements Discussion and Analysis of Financial Condition and Results of Operations—(c) Selected Statistical Information—Loan Portfolio—Concentration of Loan Portfolio and Lending Limits.” As of December 31, 1996, PPS held real estate investments with a book value of S/37.9 million (US\$14.6 million) and a market value of S/85.3 million (US\$33.1 million), which represented 15.8% of the market value of its investment portfolio.

PPS's investment portfolio is highly concentrated in equity securities. This lack of diversification, combined with the limited investments in fixed income securities, make both the value and the income of the investment portfolio vulnerable to extreme volatility. Because the investments in Backus and Credicorp are

large, there can be no assurance that PPS could readily dispose of significant portions of its securities portfolio at market values. Accordingly, there are risks associated with the potential illiquidity of PPS's securities holdings in the event that significant claims give rise to the need to liquidate rapidly a portion of such holdings.

Part of PPS's strategy is to maintain an adequate foreign exchange position in U.S. Dollars, since a significant portion of its premiums are denominated, and much of its operations are conducted, in Dollars. In 1996, 86.8% of the gross premiums received by PPS were denominated in U.S. Dollars. As of December 31, 1996, PPS had US\$27.8 million in short and medium-term U.S. Dollar-denominated deposits and U.S. Dollar-denominated corporate bonds of Peruvian companies.

(e) Pension Fund Management

Credicorp participates through its indirect 39.99% interest in AFP Unión in the Peruvian private pension fund administration system, the *Sistema de Administración de Fondo de Pensiones* (the "AFP System"), instituted by the Peruvian government in June 1993, which Credicorp views as a business area with significant growth potential. See "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(a) Historical Discussion and Analysis—Results of Operations for the Three Years Ended December 31, 1996—Operating Expenses"; "—(m) Formation of Credicorp"; and "Item 13. Interest of Management in Certain Transactions." AFP Unión, whose senior management previously worked at BCP, is currently the fourth largest of five pension fund administrators ("AFPs") operating in Peru. American International Group ("AIG"), through its subsidiaries, also holds a 40% interest in AFP Unión while Backus holds the remaining 19.99% interest. As of December 31, 1996, the paid-in capital of AFP Unión was US\$15.9 million. AFP Unión, like each of the other AFPs currently operating in Peru, experienced losses since the beginning of operations in June 1993 through December 31, 1996. Through such date, AFP Unión had net losses of approximately S/6.6 million (US\$13.5 million), calculated in accordance with Peruvian GAAP. Management believes that AFP Unión will begin to show a profit in 1997.

The Peruvian private pension fund system is a voluntary system, with employees having the choice to participate either in the private system or in the public social security system. As of December 31, 1996, there were approximately 1.6 million workers in the private system, an increase of approximately 37.2% from December 31, 1995. The aggregate funds administered by AFPs of approximately US\$583.4 million at year-end 1995, grew to US\$956.6 million at year-end 1996, and are expected to continue to grow significantly.

(f) Distribution Network

(i) Commercial Banking

BCP's branch network consisted, as of December 31, 1996, of 111 branches in Greater Lima and 95 branches in the provinces of Peru, the largest number of branches, with the most extensive country coverage of any privately held bank in Peru. Credicorp believes that BCP's branch network has been largely responsible for BCP's success in attracting stable, relatively low-cost deposits. BCP is also installing more ATMs in order to provide clients with more services and reduce congestion in the branches. BCP also operates a branch in New York and has representative offices in Bogota, Buenos Aires and Santiago de Chile. In addition, BCP has made an application to the Federal Reserve Bank of Atlanta regarding the opening of an agency in Miami.

ASHC has banking offices in Panama and Miami, and a representative office in Lima. Tequendama operates 18 branches in Colombia and 2 branches in Venezuela. BCB operates 21 branches located throughout Bolivia. Credicorp also owns a banking subsidiary in the Bahamas.

(ii) ***Capital Markets***

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

(iii) ***Insurance***

PPS, like other major Peruvian insurance companies, sells its products both through independent brokers and agents as well as directly, with 26.8% of premiums written for the year ended December 31, 1996 attributable to insurance products sold directly by PPS. Directly written policies tend to be for large commercial clients.

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

(g) **Operations Support**

Credicorp's operations are primarily supported by BCP's support departments. Commercial banking operations are supported by BCP's Credit Department, which evaluates and helps administer credit relationships, establishes credit policies and monitors credit risk. See “—(b) Commercial Banking—(iv) Credit Policy and Review.” BCP's Planning and Finance division is responsible for planning, accounting and investor relations functions. Planning and Finance is responsible for analyzing the economic, business and competitive environment in order to provide the necessary feedback for senior management's decision-making. BCP's Administration division has responsibility for institutional and public relations, human resources, the legal department, security, maintenance and supplies. The Operations and Systems unit operates the branch network which, as of December 31, 1996, consisted of 111 branches in Greater Lima and 95 branches in the provinces of Peru, the largest number of branches, with the most extensive coverage of the country, of any privately held bank in Peru. At the same time, in order to improve operating efficiency, BCP is continually evaluating its branch network to monitor branch profitability. Credicorp has recently completed the relocation of its transaction processing activities from BCP's branches to a recently formed central operation.

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

BCP spent approximately US\$37 million during 1996 to improve its information systems. BCP is making this investment in order to improve the quality of customer service and to improve its customer databases to allow management to obtain and analyze information on customer and business profitability. These new systems will allow BCP to set competitive pricing more efficiently and to monitor profitability. Credicorp intends to make expenditures of US\$20 million on information systems during 1997.

(h) Employees

At December 31, 1996, Credicorp had 7,343 full-time employees, of which 6,443, 117, 249 and 489 were with BCP, ASHC, PPS and BCB, respectively, and 250 employees hired on a temporary basis.

All banks in Peru belong to an employee union, and such employee unions are collectively represented by the *Federación de Empleados Bancarios* (the Federation of Banking Employees, or “FEB”). In order to negotiate a collective agreement on behalf of its members, the FEB must have as members over 50% of all Peruvian banking employees. Because the representation of FEB has declined to below 50%, the most recent collective bargaining agreement, which expired on June 30, 1995, has not been renewed. As of December 31, 1996, only two BCP employees, fewer than 1% of BCP's employees, belonged to a union. The last strike by union employees occurred in 1991 and did not interfere with BCP's operations.

Due to the limited participation in the union, BCP has submitted an application to the Peruvian Ministry of Labor requesting permission to disband the union. BCP expects the Ministry of Labor to make an on-site visit to BCP to determine the merits of the application. BCP believes that the application will be approved.

At December 31, 1996, none of ASHC's or PPS's employees belonged to a union.

(i) Competition

(i) Banking

The Peruvian banking sector is comprised of 24 banking institutions including a consumer credit company that changed its charter to a bank charter in March 1997 and four finance companies. At December 31, 1996, BCP ranked first among all Peruvian banks in terms of assets, deposits and loans representing approximately 28.3%, 29.4% and 27.7%, respectively, of the Peruvian market. As of such date, the next three largest banks (*Banco Wiese Limitado*, *Banco Continental* and *Interbanc*) had deposits representing 19.4%, 17.1% and 7.0%, respectively, and loans representing 19.5%, 13.5% and 7.9%, respectively, of the Peruvian market.

The Peruvian banking industry has experienced consolidation and increased foreign entry in recent years, following passage of the Banking Law in 1991 and Decree 770 in 1993, which liberalized the banking industry and removed all restrictions on foreign ownership of Peruvian financial institutions. See “—(k) The Peruvian Financial System—General.” Among banks new to Peru are *Banco del Trabajo*, *Banco Solventa*, *Banco del Pais* and *Serbanco*, all of which are owned principally by Chilean investors, which began operations since the beginning of 1995 and which have focused on satisfying consumer credit demands. Privatizations included those of: *Banco Continental*, the country's third largest bank, which was acquired by *Banco Bilbao Vizcaya* of Spain in association with Peru's *Grupo Brescia*; and *Interbanc*, purchased in July 1994 by IFH Peru S.A. in association with *Banco Osorno y La Union* of Chile. Recent acquisitions of Peruvian banks by non-Peruvian companies include those of *Banco Interandino* and *Banco Mercantil*, which were purchased by *Banco Santander* of Spain; *Banco de Lima*, which was acquired by *Banco Sudameris* of France; and *Banco del Sur*, which was purchased in early 1996 by a group made up of the Luksic group of Chile, *Banco Central Hispano* of Spain and HSBC Holdings of Great Britain.

Credicorp believes that the consolidation and increased foreign ownership within the Peruvian banking

industry will continue in the coming years, as smaller banks seek alliances or merge in order to maintain viability in an increasingly competitive environment. Such increased competition may in the future affect Credicorp's loan growth and reduce the average interest rates that it may charge its customers, as well as reduce fee income. During 1996, there was an increase in marketing for deposits and personal and consumer loans, most of the which were matched by BCP's own marketing through which it increased its share of the Peruvian market in terms of loans and deposits.

In the Wholesale Banking division, BCP's Corporate Banking division has experienced over the last few years increased competition and a resulting decline in margins, primarily as a result of new entrants into the market, including foreign and recently privatized commercial banks and local and foreign investment banks. In addition, Peruvian companies have gained access to new sources of capital through the local and international capital markets. Credicorp does not intend to pursue corporate lending opportunities that are unprofitable in order to maintain market share. As a result, Credicorp does not expect Corporate Banking to grow at the levels experienced in 1995 and 1996. However, Credicorp will seek to maintain its close relationships with corporate customers, focusing on providing prompt responses to their requirements and setting competitive prices. In this regard, Credicorp is updating its information systems to improve customer service and to allow management to obtain more efficiently information on customer and business profitability. In addition, Credicorp intends to expand the range of BCP's investment banking and cash management products.

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

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

(ii) ***Insurance***

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

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

market share.

(j) Peruvian Government and Economy

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

(i) Peruvian Government

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

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

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

(ii) Peruvian Economy

Early in his presidency, President Fujimori liberalized price and wage controls in the private sector, eliminated all restrictions on capital flows, instituted emergency taxes to reduce the fiscal deficit, and liberalized interest rates. Furthermore, the government established an agenda to institute a wide-ranging

privatization plan and re-establish relations with the international financial community.

In the past several years, the performance of the Peruvian economy had been volatile with GDP contracting by 11.7% in 1989, contracting by 5.2% in 1990, increasing by 2.4% in 1991 and contracting by 2.9% in 1992. In recent years, however, the results of President Fujimori's stabilization plan have resulted in GDP increasing 6.5% in 1993, 12.7% in 1994, 6.9% in 1995 and 2.8% in 1996. The inflation rate in Peru, as measured by the Lima consumer price index, has fallen from 7,650% in 1990 to 139.2% in 1991, 56.7% in 1992, 39.5% in 1993, 15.4% in 1994, 10.2% in 1995 and 11.8% in 1996. The Peruvian government estimates that for 1997, GDP will grow approximately 5.0% and inflation will be from 8.0% to 10.0%.

Real interest rates have behaved erratically over the past three years but have been falling slowly over this period. The nominal monthly interest rate on loans in Nuevos Soles has declined from 72% in December 1993 to 31% in December 1996.

The trade balance dropped from a surplus of US\$340 million in 1990 to a deficit of US\$2.0 billion in 1996 as a result of trade liberalization and a strong local currency which triggered imports. The current account registered a deficit of US\$3.6 billion in 1996 due to the trade deficit and expenditures in financial services. The capital account, on the other hand, had a surplus of US\$3.7 billion mainly due to the inflow of long-term capital and the capital inflow from privatizations. The flow of direct foreign investment into Peru was US\$818 million in 1996 and US\$1.5 billion in 1995 (in 1996, US\$228 million was due to the sale of *Empresa de Generación Eléctrica Nor Perú S.A.* (Egenor)

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

Although BCP and PPS both earn much of their revenue in U.S. Dollars, if the rate of inflation exceeds the rate of devaluation of the Nuevo Sol relative to the U.S. Dollar, profitability will be negatively impacted because revenues, expressed in Nuevos Soles, generally will not increase in line with Nuevo Sol-denominated expenses. The results of both BCP and PPS were negatively impacted by this effect in 1994 and 1995.

Peru's recent economic reform has also caused a reduction of the fiscal deficit. The deficit dropped from 7.1% of the country's gross domestic product ("GDP") in 1989 to a surplus of 2.1% in 1994 before increasing to a deficit of 1.6% in 1995 and a surplus of 2.2% in 1996. One of the factors driving the reduction has been a drop in government spending from 30.2% of GDP in 1988 to 15.9% in 1996. In addition, efforts to increase tax revenues have been successful, with tax collections increasing from 6.7% of GDP in 1989 to 14.2% of GDP in 1996. The fear of an overheating economy led the economic authorities to control fiscal expenses. As a desired consequence, economic growth decelerated during most of 1996. The economy has shown signs of stronger growth in 1997.

In October 1995, Peru reached a preliminary Brady agreement with the Bank Advisory Committee representing commercial creditors holding Peru's past due short, medium and long-term debt. On June 5,

1996, Peru published the Term Sheet for the 1996 Financing Plan pursuant to which creditors are offered various repayment options. The Peruvian government finalized the Brady agreement in March 7, 1997, achieving a reduction of Peru's external debt (approximately US\$4.9 billion) and a restructuring of future maturities. Additionally, in July 1996 Peru reached an agreement with the Paris Club countries, resulting in the rescheduling of 1996-1998 maturities.

(k) The Peruvian Financial System

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

General

At December 31, 1996, the Peruvian financial system consisted of the following principal participants: the Central Bank, the SBS, 23 banking institutions (not including *Banco de la Nación*), four finance companies, and one consumer credit company, which was turned into a bank as of March 1997. In addition, Peru has various mutual mortgage associations, municipal and rural savings and credit associations, municipal public credit associations, and savings and credit cooperatives.

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

Central Bank

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

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

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

SBS

The SBS, whose authority and activities are discussed under “—(1) Supervision and Regulation,” is the regulatory authority charged with implementation and enforcement of the norms contained in Law 26702 and, more generally, with the supervision and regulation of all financial institutions in Peru.

Financial System Institutions

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

Banks

Banks, as defined by Law 26702, are permitted to carry out various types of financial operations, including the following: receiving demand deposits, time deposits, savings deposits and deposits in trust; granting direct loans; discounting or advancing funds against bills of exchange, promissory notes, and other credit instruments; granting mortgage loans and accepting bills of exchange in connection therewith; granting conditional and unconditional guaranties; issuing, confirming, receiving and discounting letters of credit; acquiring and discounting certificates of deposit issued by banks and finance companies, warehouse receipts, bills of exchange and invoices of commercial transactions; performing credit operations with local and foreign banks, as well as making deposits in such institutions; issuing and placing local currency and foreign currency bonds, as well as promissory notes and negotiable certificates of deposits; issuing certificates in foreign currency and entering foreign exchange transactions; purchasing banks and non-Peruvian institutions which conduct financial intermediation or securities exchange transactions, in order to maintain an international presence; purchasing, holding and selling gold and silver as well as stocks and bonds listed on one of the Peruvian stock exchanges and issued by companies incorporated in Peru; acting as financial agent for investments in Peru for external parties; purchasing, holding and selling instruments evidencing public debt, whether internal or external, as well as obligations of the Central Bank; making collections, payments and transfers of funds; receiving securities and other assets in trust and leasing safety deposit boxes; and issuing and administering credit cards and accepting and performing trust functions.

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

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

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

Finance Companies

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

Other Financial Institutions

The Peruvian financial system has a number of less significant entities which may provide credit, accept deposits or otherwise act as financial intermediaries on a limited basis. Savings and loans associations or cooperatives may accept certain types of savings deposits and provide other similar financial services.

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

Insurance Companies

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

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

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

The insurance industry has experienced consolidation in recent years with the number of companies decreasing from 19 in 1991 to 12 as of December 31, 1996.

(I) Supervision and Regulation

(i) Credicorp

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

Certain requirements set forth in Law 26702, which regulates the Peruvian financial and insurance

companies, through its provisions for the consolidated supervision of financial institutions, are applicable to Credicorp. Accordingly, various limitations, ratios, and capital requirements, are applicable to both BCP and Credicorp.

Since Credicorp's Common Shares are listed on the Lima Stock Exchange, Credicorp is subject to certain CONASEV and Lima Stock Exchange reporting requirements. See “Item 5. Nature of Trading Market—(b) The Lima Stock Exchange—Market Regulation.”

(ii) **BCP**

Overview

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

BCP's operations are supervised and regulated by the SBS and the Central Bank. Violators of specified provisions of Law 26702 and its underlying regulations are subject to administrative sanctions and criminal penalties. Additionally, the SBS and the Central Bank have the authority to fine financial institutions and their directors and officers if they violate Peruvian laws or regulations or such financial institutions' by-laws.

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

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

Authority of the SBS

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

The SBS is granted administrative, financial and operating autonomy. Its goals are to protect the interest

of the general public, solidify the financial stability of the institutions under its control, and ensure that regulations are observed and that violators are punished. Its responsibilities include: reviewing and approving, with the assistance of the Central Bank, the establishment and organization of its subsidiaries by regulated institutions; overseeing the merger, dissolution, and reorganization of banks, financial institutions, and insurance companies; supervision of companies in the financial and insurance system and of related companies, through ownership or management control as stated in the law, including banking and nonbank holding companies, for which information on an individual and consolidated basis is required; reviewing the by-laws and amendments thereto of these companies; setting forth the criteria for valuing assets, liabilities, and minimum capital requirements authorizing the transfer of bank shares when the law allows for such a transfer; and controlling the *Central de Riesgos* (Bank Risk Assessment Center) to which all banks are legally required to provide information on loans they have made that exceed S/13,558 (as of March 1997). The information compiled by this center is available to all banks to allow them to monitor individual borrowers' overall exposure to Peruvian banks.

Capital Adequacy Requirements

Since the approval of Legislative Decree 637 in 1991, the SBS issued new capitalization requirements for credit institutions, adopting a framework structurally similar to that proposed by the Basel Committee on Banking Regulations and Supervisory Practices of International Settlements (the "Basel Accord"). Weights assigned to various classes of assets, and the contents of the classifications, initially were more stringent under Decrees 637 and 770 than under the Basel Accord. Law 26702 has adopted similar criteria to the Basel Accord and provides for five categories of assets, with different risk weights assigned to each category. The categories range from Risk-free Assets, to which a weighting of 0% is assigned, to Assets, which require a weighting of 100%. Banks are required to prepare and submit to the SBS, within the first 15 days of each month, a report analyzing the bank's assets and portfolio for the previous month and totaling the bank's regulatory capital. Foreign currency denominated assets are valued in Nuevos Soles at the SBS average exchange rate in effect as of the date of each such report.

A similar system is employed for market risks, whereby different weights are assigned to various classes of commodities, securities, derivative operations or commercial assets that banks may hold.

According to Article 184 of Law 26702, regulatory capital consists of the sum of (i) paid-in-capital, legal reserves, discretionary reserves (if any), generic reserves for losses in the loan portfolio or other indirect credit exposure (up to 1% of the total value of both) and a percentage of certain subordinated bonds issued by the bank, less (ii) equity investments in all subsidiaries consolidated into the financial statements. The resulting amount is adjusted to reflect profits or losses from previous years and from the current year, as well as to reflect adjustments for exposure to inflation and for the deficit in the reserves, less the balance, if any of the reserve for asset revaluation. According to Article 184, regulatory capital can be segmented and applied to cover credit risks and market risks. As of December 31, 1996, the determination of weighted market risk and their corresponding part of regulatory capital was still not applicable pending regulations from the SBS.

Law 26702 requires that the total amount of risk-weighted assets not exceed 11 times the regulatory capital of the bank, meaning that regulatory capital must be maintained at a level of at least 9.09% of total risk-weighted assets of BCP. The limit of 11 times risk-weighted assets to regulatory capital will be phased in to become effective in December 1999. Presently a bank's ratio of risk-weighted assets to regulatory capital is required not to exceed 12.5 times regulatory capital however, an interim limit of 11.5 times risk-weighted assets to regulatory capital will become effective by June 1997. Any bank that is not in compliance with the

capital adequacy requirements of Law 26702 is required to post a special deposit with the Central Bank, which is frozen until such bank is within those capital adequacy requirements.

Legal Reserve Requirements

Pursuant to Article 67 of Law 26702, all banks must create a legal reserve. Each year a bank must allocate 10% of its net income to its legal reserve until its legal reserve is equal to 35% of its paid-in capital stock. Any subsequent increases in paid-in capital will imply a corresponding increase in the required level of the legal reserves to be funded as described above. As of December 31, 1996, BCP's legal reserve was S/192.2 million (US\$74.5 million), equivalent to 29.3% of BCP's paid-in capital as of such date.

Provisions for Loan Losses

Guidelines for the establishment of provisions for loan losses by Peruvian credit institutions, including commercial banks, are set by the SBS. Law 26702 grants authority to the SBS to establish generic loan reserves of up to 1% on loans classified in the Normal (A) risk category. Additionally, Law 26702 does not allow for the consideration of collateral in determining the net amount of outstanding credit risk subject to provision. As of December 31, 1996, prior regulations were still being applied pending the enactment of rules that would initiate application of Law 26702.

See “Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(a) Historical Discussion and Analysis—Results of Operations for the Three Years Ended December 31, 1996—Provision for Loan Losses.”

Central Bank Reserve Requirements

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

The rate of the legal reserve is 7%, which is calculated upon all obligations subject to the legal reserve. The reserve may be kept in cash by the corresponding bank or finance company or in deposits in current accounts in the Central Bank. As of December 31, 1996, there is an additional reserve for obligations in foreign currency. The current additional reserve requirement is 39%, resulting in a total reserve for obligations in foreign currency of 45%. The legal reserve and the additional reserve shall be calculated in Nuevos Soles for obligations in local currency and in U.S. Dollars for obligations in foreign currency. The Central Bank also establishes the interest rate payable from time to time on the additional reserve. The Central Bank oversees compliance with the reserve requirements

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

Lending Activities

The Banking Law sets maximum amounts of credit that each financial institution may extend to a single borrower. For purposes of the Banking Law, a single borrower includes an individual or an economic group. An economic group constituting a single or common risk, according to Law 26702, includes a person, such person's close relatives and companies in which such person or close relatives have significant share ownership or decision making capability. According to current regulations, shareholders who own or control directly or indirectly at least one-sixth of a company's shares are considered the significant shareholders. Significant decision-making capability is present when a person or group may exercise material and continuous influence in the decisions of others or when it can be assumed that one company or person is the beneficial recipient of credit facilities granted to another company.

The limits for credits to one borrower vary according to the type of borrower and the collateral taken. The limitation applicable to credits to any Peruvian borrower is 10% of the bank's regulatory capital, applied to both unconsolidated and consolidated records, which may be increased to up to 30% if the loan is collateralized in a manner acceptable under Law 26702. As of December 31, 1996, the credit limit per borrower of BCP, unconsolidated, was S/51.7 million (US\$20.0 million) for unsecured loans and a maximum of S/516.9 million (US\$200.4 million) for secured loans. If a financial institution exceeds these limits, the SBS may impose a fine on the institution.

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

Related Party Transactions

Law 26702 regulates and limits transactions with related parties and affiliates. The total amount of loans to directors, employees or close relatives of any such person may not exceed 7% of a bank's paid-in capital in the aggregate. All loans made to any single related party borrower may not exceed 0.35% of paid-in capital (*i.e.*, 5% of the overall 7% limit).

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

Ownership Restrictions

Banks must have at least three unrelated shareholders at all times. Law 26702 establishes certain restrictions on the ownership of a bank's shares. Restrictions are placed on the ownership of shares of any

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

Deposit Fund

Law 26702 provides for mandatory deposit insurance to protect all types of deposits of financial institutions by establishing the *Fondo de Seguro de Depósitos* (Deposit Insurance Fund, or the "Fund") for individuals, associations and not-for-profit companies. Financial institutions must pay an annual premium calculated on the basis of the type of deposits accepted by the entity and the risk classification of such entity, made by the SBS and at least two independent risk-rating agencies. The annual premiums begin at 0.65% of total funds on deposit under the coverage of the Fund, for the lowest risk category, and increase by 0.20% according to each higher risk category in which the bank is classified. For the second quarter of 1997, the maximum amount that a customer is entitled to recover from the Fund was S/12,459.

Intervention by the SBS

The SBS has the power to seize the operations and assets of a bank in order to manage it or proceed to its liquidation upon the occurrence of certain events, including if: (a) such bank (i) interrupts payments on its liabilities, (ii) repeatedly fails to comply with the instructions of the SBS or the Central Bank, (iii) repeatedly violates the law or the provisions of the bank's by-laws, or (iv) repeatedly manages its operations in an unauthorized or unsound manner; or (b) its shareholders equity falls below 50% of its regulatory capital. Rather than seizing the operations and assets of a bank, the SBS may adopt other measures, including imposing additional requirements on a commercial bank, and ordering it to increase its capital stock or divest certain or all of its assets.

SBS intervention is only for a short period of time. If the intervention is for insufficient capitalization of the bank or if the bank interrupts payments on its liabilities, the SBS may intervene for only one day. Depending upon the condition of the institution, the Central Bank will either make efforts to recapitalize or liquidate the bank. If the SBS intervenes in the bank for reasons such as fraud or illegal activity, the intervention will last for a maximum of 30 days, during which time the SBS will institute corrective measures such as replacing bank management or the board of directors.

(iii) *ASHC*

General

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

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

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

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

Continuing Requirements

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

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

(iv) ***Banco Tequendama***

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

(v) ***PPS***

Overview

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

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

Establishment of an Insurance Company

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

Index”), with a base of October 1996.

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

Solvency Requirements

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

Insurance companies must also maintain “solvency equity,” which must at least be equal to the highest of (a) the solvency margin, or (b) the minimum capital requirement, as established by law, or (c) the company's overall indebtedness, calculated in accordance with the provisions of Law 26702. The required amount of solvency equity is recalculated at least quarterly and is adjusted for inflation. If the insurance company has outstanding credit risk operations, part of the solvency equity should be segregated for their coverage.

Legal Reserve Requirements

Peruvian law also requires that all insurance companies establish a legal guarantee reserve for policyholders, by setting aside 10% of adjusted income before taxes, until the reserve reaches at least 35% of paid-in capital. For PPS, the minimum capital required as of December 31, 1996 was S/9.5 million (US\$3.7 million).

Reserve Requirements

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

Investment Requirements

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

Related Party Transactions

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

Ownership Restrictions

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

(m) Formation of Credicorp

Although historically there had been substantial overlap among the shareholders of BCP, ASHC and PPS, for reasons related to the regulatory, political and economic environment in Peru, they had been managed independently from one another. Credicorp was formed in 1995 by the management of BCP for the purpose of acquiring, pursuant to the Exchange Offer, the common shares of BCP, ASHC and PPS. Credicorp acquired in October 1995 in the Exchange Offer 90.1% of BCP (391,973,951 shares), 98.2% of ASHC (39,346,169 shares), and 75.8% of PPS (5,537,474 shares) in exchange for 60,815,152 Common Shares at a ratio of 0.010401, 0.33708 and 1.224961 Common Shares per common share of BCP, ASHC and PPS, respectively. The Common Shares commenced trading in the New York Stock Exchange immediately upon consummation of the Exchange Offer, with a closing price on such day of US\$15 5/16. On March 19, 1996, Credicorp acquired pursuant to an exchange offer with the same terms as the Exchange Offer the remaining 1.8% of the outstanding shares of ASHC (702,674 shares) in exchange for 237,859 Common Shares at a ratio of 0.33708 Common Shares per common share of ASHC. The closing price of the Common Shares on the New York Stock Exchange on the date of consummation of that exchange offer was US\$16 1/16 (adjusted to reflect the April 1996 stock dividend). See “Item 5. Nature of Trading Market—General” and “Item 8. Selected Financial Data—Dividends.”

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

BCP began operations in 1889 as Banco Italiano and changed its name to Banco de Crédito del Perú in 1941. BCP has been the largest commercial bank in Peru since the 1920s. Members of the Romero family have been shareholders of the bank since 1918 and became the controlling shareholders in 1979. Mr. Dionisio Romero, Chairman of the Board and Chief Executive Officer of Credicorp, was on the board of directors of BCP from 1966 to 1987, becoming Chairman in 1979. In response to the attempt by the then President of Peru, Alan García, in 1987 to nationalize the Peruvian banking industry, the majority shareholders at that time, including Mr. Romero, sold a controlling interest in BCP and transferred management to its employees, which prevented the government from gaining control of the bank. Upon the election of Alberto Fujimori as President of Peru in 1990 and the introduction of market reforms, the Romero family reestablished its shareholding in BCP and Mr. Romero and several key managers of BCP returned to the bank. The Romero family exchanged their BCP shares in the Exchange Offer, and now hold 18.93% of the Common Shares of

Credicorp. See “Item 4. Control of Registrant.”

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

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

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

Credicorp acquired on May 16, 1996, through *Inversiones Crédito del Perú, S.A.* substantially all of the shares of *Inversiones El Pacífico-Peruano Suiza S.A.* for US\$ 5.5 million, the principal asset of which is 20% of the shares of AFP Unión. Prior thereto, Credicorp owned 20% of the shares of AFP Unión which it acquired in 1995. Additionally, in January of 1997, Credicorp purchased 99.99% of Banco Tequendama, a Colombian bank with US\$390 million in assets and a minor presence in Venezuela for US\$48.01 million.

ITEM 2. DESCRIPTION OF PROPERTY.

At December 31, 1996, Credicorp had approximately 253 branch, representative and similar offices of which 111 were branch offices of BCP in Greater Lima. Credicorp's principal properties include the headquarters of BCP and PPS, at Calle Centenario 156, Las Laderas de Melgarejo, La Molina, Lima, Peru and Avenida Arequipa 660, Lima, Peru, respectively. Credicorp owns each of these properties, except for 38 properties which it holds under leases. There are no material encumbrances on any of Credicorp's properties.

ITEM 3. LEGAL PROCEEDINGS.

Credicorp and its subsidiaries are involved in certain other legal proceedings incidental to the normal conduct of their businesses. Credicorp does not believe that liabilities relating to such proceedings will have a material adverse effect on Credicorp's financial condition or results of operation.

ITEM 4. CONTROL OF REGISTRANT.

As of June 10, 1997, there were 85,801,738 Common Shares issued, of which 12,214,488 Common Shares were held by BCP, ASHC and PPS. Under Bermuda law, BCP, ASHC and PPS have the right to vote the Common Shares they own. The table below provides details about the percentage of Common Shares owned by Credicorp's directors and officers as a group and each holder of 10% or more of Common Shares, as of June 10, 1997.

<u>Owner</u>	<u>Common Shares</u>	<u>Percent of Class (1)</u>
Romero family(2)	13,815,370	18.93%
Directors and officers as a group(3).....	1,830,784	2.13%
Atlantic Security Holding Corporation.....	12,266,940	14.30%

- (1) As a percentage of issued and outstanding shares (including treasury shares).
- (2) Includes Common Shares directly or indirectly owned by Dionisio Romero and his family, including José Antonio Onrubia, or companies owned or controlled by them. Mr. Romero is the Chairman and Chief Executive Officer of Credicorp; Mr. Onrubia is a Director of Credicorp. Messrs. Romero and Onrubia are first cousins.
- (3) Does not include Dionisio Romero, Chairman of the Board and Chief Executive Officer, and José Antonio Onrubia, Director, whose share ownership is included under "Romero family" in the table.

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

ITEM 5. NATURE OF TRADING MARKET.

(a) General

As of June 10, 1997, 75,587,258 Common Shares (excluding 12,214,480 treasury shares) were outstanding; of which approximately 40% were held in the United States. As of such date, there were 95 record holders of Common Shares in the United States. Because certain of these Common Shares were held by brokers or other nominees and due to the impracticability of obtaining accurate residence information for all shareholders, the number of holders of record or registered holders in the United States is not representative of the number of beneficial holders or of the residence of beneficial holders.

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

	<u>High(1)</u>	<u>Low(1)</u>	<u>Average Daily Volume*</u>
1996.....	\$16.78	\$11.75	66,684
1997			
First quarter	\$19.43	\$14.85	77,542
Second quarter (through June 10)	\$21.62	\$19.02	73,851

* Source: Bloomberg

- (1) Credicorp declared a stock dividend on March 13, 1997 of 0.200 Common Shares for each Common Share held at the close of business on March 29, 1997. The Common Share prices shown above have been adjusted retroactively to reflect the stock dividend.

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

	<u>High(1)</u>	<u>Low(1)</u>	<u>Average Daily Volume*</u>
1996.....	\$16.71	\$11.73	42,302
1997			
First quarter	\$19.70	\$14.66	49,746
Second quarter (through June 10).....	\$23.55	\$19.33	40,098

* Source: Economatica

- (1) Credicorp declared a stock dividend on March 13, 1997 of 0.200 Common Shares for each Common Share held at the close of business on March 29, 1997. The Common Share prices shown above have been adjusted retroactively to reflect the stock dividend.

On June 10, 1997, the last sale price of the Common Shares on the New York Stock Exchange was US\$22.63 per share. On June 10, 1997, the closing price of the Common Shares on the Lima Stock Exchange was US\$22.45.

(b) The Lima Stock Exchange

(i) Trading

As of June 1997, there were 252 companies listed on the *Bolsa de Valores de Lima* ("Lima Stock Exchange"), Peru's only securities exchange, which was established in 1970. Trading on the Lima Stock Exchange is primarily done on a new electronic trading system that became operational in August 1995. Trading hours are Monday through Friday 8:00 a.m.—9:30 a.m. (pre-market ordering); 9:30 a.m.—1:30 p.m. (trading); and 1:30 p.m.—2:00 p.m. (after market sales). Equity securities may also be traded in an open outcry auction floor session, which was the exclusive method of trading equity securities prior to the introduction of electronic trading. Nearly 100% of transactions currently take place on the electronic system.

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

The Peruvian stock market capitalization increased 93.3%, 60.5%, 43.4% and 18.3% in 1993, 1994, 1995 and 1996, respectively, in U.S. Dollar terms. Volume in the Peruvian market is highly concentrated,

with the five most actively traded companies representing 44.09% of total traded value during 1996. Total traded volume has increased from US\$1.98 billion in 1993 to US\$4.05 billion in 1994, to US\$5.28 billion in 1995 and to US\$8.49 billion in 1996. Average daily traded volume has increased from US\$3.0 million in late 1992 to US\$33.7 million for the year ended December 31, 1996. The *Indice General de la Bolsa de Valores de Lima* (the General Index of the Lima Stock Exchange (the "IGBVL")), after increasing, in U.S. Dollar terms, 88.7% in 1993, increased 50.5% in 1994, decreased 17.3% in 1995 and increased 2.84% in 1996.

(ii) **Market Regulation**

As of December 1996 a new Peruvian securities law, Legislative Decree 861 (the "Securities Market Law"), superseded Legislative Decree 755, which had been in effect since November 1991. The rapid development and internationalization of the Peruvian economy brought about the need to modernize Peru's old securities law. The Securities Market Law addresses such matters as: transparency and disclosure; takeovers and corporate actions; capital market instruments and operations; the securities markets and broker-dealers; and risk rating agencies.

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

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

Pursuant to the Securities Market Law, a guarantee fund must be maintained by the Lima Stock Exchange and funded by its member firms. The actual contributions to be made by the member firms is to be based on volume traded over the exchange. However, final terms are still pending from the CONASEV.] At present, a contingency fund has been funded with approximately S/2,000,000. Additionally, each member firm is required to maintain, as a guarantee for its operations, a *Fondo de Garantía* ("Guarantee Fund") with the CONASEV. The manner in which such guarantees shall be determined is to be established by the MEF. Presently, the 48 members of the Lima Stock Exchange have on deposit with the CONASEV S/235,276 (US\$91,192) in the Guarantee Fund.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY

HOLDERS.**(a) Exchange Controls**

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

As Credicorp relies almost exclusively on dividends from BCP, ASHC and PPS for the payment of dividends to holders of Common Shares and corporate expenses, to the extent these subsidiaries are restricted by law from paying dividends to Credicorp, Credicorp's ability to pay dividends on the Common Shares will be adversely affected.

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

Although substantially all of the customers of BCP, ASHC and PPS are located in Peru, as of December 31, 1996, approximately 83.7% of BCP's loan portfolio, 100% of ASHC's loan portfolio and 86.8% of PPS's premiums were denominated in U.S. Dollars. A devaluation of the Nuevo Sol would therefore have the effect of increasing the cost to the borrower or insured of repaying these loans or making premium payments, in Nuevo Sol terms, which is the currency in which most of the customers of BCP, ASHC and PPS generate revenues. As a result, a devaluation could lead to increased nonperforming loans or unpaid premiums. The Peruvian currency has been devalued numerous times during the last two decades.

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

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

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

<u>Year ended December 31,</u>	<u>High(1)</u>	<u>Low (1)</u>	<u>Average(2)</u>	<u>Period-end(3)</u>
	<i>(Nominal Nuevos Soles per U.S. Dollar)</i>			
1992	1.640	.960	1.244	1.630
1993	2.175	1.705	2.008	2.165
1994	2.250	2.170	2.197	2.175
1995	2.330	2.190	2.257	2.320
1996	2.350	2.607	2.462	2.600
1997 (through June 10).....	2.650	2.670	2.648	2.660

Source: SBS

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

The average of the bid and offered exchange market rates published by the SBS for June 10, 1997 was S/2.659 per US\$1.00.

(b) Ownership Restrictions

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

ITEM 7. TAXATION.

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

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

As an exempted company, Credicorp is liable to pay in Bermuda a registration fee based upon its authorized share capital and the premium on its issued shares of common stock at a rate not exceeding US\$25,000 per annum.

ITEM 8. SELECTED FINANCIAL DATA.

(a) Dividends

Pursuant to Bermuda law, dividends are payable out of Credicorp's retained earnings and contributed surplus account. Although there can be no assurance that any dividends will be paid or as to the amount of dividends, if any, to be paid, Credicorp currently intends to declare and pay dividends annually and Credicorp's Board of Directors currently expects to recommend to the shareholders an annual dividend no less than 25% of consolidated net profits. However, the payment of dividends is subject to the discretion of the Board of Directors of Credicorp and will depend upon general business conditions, the financial performance of Credicorp, the availability of dividends from Credicorp's subsidiaries and restrictions on their payment and other factors that Credicorp's Board of Directors may deem relevant.

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

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

Year ended December 31,	Number of Shares	Cash	Stock Dividends
	Entitled to Dividends	Dividends Per Share	Per Share
1996	60,852,286	US\$0.55	0.175
1997	71,501,085	US\$0.50	0.20

On February 20, 1997, the Board of Directors of Credicorp declared a cash dividend of US\$0.50 and a stock dividend of US\$0.20 Common Shares per Common Share held at the close of business on March 21, 1997. The cash portion of the dividend was distributed on April 14, 1997; whereas the stock portion of the dividend was made on April 28, 1997. Fractional portions of the stock dividend will be rounded up to the nearest full share if the fraction exceeds 50% of a share.

(b) Selected Financial Data

The following table presents summary consolidated financial information for Credicorp at the dates and for the periods indicated. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Credicorp Consolidated Financial Statements. The summary consolidated financial data as of December 31, 1994, 1995 and 1996 and for the three years ended December 31, 1996, are derived from the Credicorp Consolidated Financial Statements audited by Coleridge y Asociados, members of the Arthur Andersen (Andersen Worldwide Organization). The report of Coleridge y Asociados on the Credicorp Consolidated Financial Statements as of December 31, 1995 and 1996, and for the three years ended December 31, 1996, appears elsewhere in this Annual Report. Because of the size of BCP in relation to

Credicorp, for consolidation purposes, BCP has been considered as the predecessor entity and the historical consolidated financial statements of Credicorp prior to the October 20, 1995 Exchange Offer are those of BCP adjusted to conform to IAS and translated into U.S. Dollars in accordance with IAS, as described in Note 2 to the Credicorp Consolidated Financial Statements. The summary consolidated financial data as of December 31, 1991 and 1992, are derived from the financial statements of BCP for such dates and periods audited by Querol Dongo-Soria y Asociados (formerly Moreno Patiño y Asociados), a member firm of Price Waterhouse, independent accountants. Those financial statements of BCP were prepared in accordance with Peruvian GAAP and applicable SBS rules as applied to banks and, for purposes of preparing the summary consolidated financial data as of December 31, 1991 and 1992, and for the two years ended December 31, 1993, adjusted to conform to IAS in the manner set forth below. The summary consolidated financial information presented below and the Credicorp Consolidated Financial Statements are prepared and presented in accordance with IAS, which differ in certain respects from U.S. GAAP. See Note 18 to the Credicorp Consolidated Financial Statements, which provides a description of the principal differences between IAS and U.S. GAAP, as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp's net income and shareholders' equity.

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

IAS requires a similar adjustment for hyperinflationary economies. In accordance with IAS, when the cumulative three year inflation rate is less than 100% an economy is no longer considered hyperinflationary, and the use of inflation adjusted financial reporting is no longer appropriate, whereas Peruvian GAAP continues to require the reporting of annual inflation adjusted financial statements. In 1996, the accumulated inflation rate in Peru for the preceding three years was lower than 100% and, consequently, if BCP was to report in accordance with IAS, the financial statement adjustment under Peruvian GAAP required to reflect the variation of the purchasing power of the Peruvian currency during 1996 would not be made. Accordingly, the historical Nuevos Soles financial statements of BCP (i) have been adjusted for inflation for all periods prior to 1995 using the Wholesale Price Index to restate Nuevo Sol amounts in constant December 31, 1994 Nuevos Soles and (ii) such Nuevo Sol amounts have been translated into U.S. Dollars by using (A) with respect to monetary assets and liabilities, the free market exchange rate in effect at the balance sheet date, (B) with respect to non-monetary assets (including their depreciation or amortization) and equity accounts, the free market exchange rate at the later of December 31, 1994 and the original date of the transactions, and (C) with respect to income and expense accounts (except for those related to non-monetary assets), the average exchange rates of the period in which they were generated. The result of the financial statement translation into U.S. Dollars is included in Credicorp's income statement. The December 31, 1994 Nuevo Sol/U.S. Dollar exchange rate was S/2.19 per US\$1.00. The effect of inflation accounting under IAS has not been reversed in the reconciliation to U.S. GAAP. See Note 18 to the Credicorp Consolidated Financial Statements.

ASHC and PPS have been treated as significant acquisitions by BCP and accounted for under the purchase method of accounting based on their respective fair values as of October 31, 1995. The financial information presented below to the right of the double bar reflects the results of operations and the financial condition of BCP for 1995 and of PPS and ASHC for the last two months of 1995 following the Exchange

Offer. The financial information presented below to the left of the double bar does not reflect the results of operations or the financial condition of ASHC or PPS and, as a result, is not directly comparable with the information presented to the right of the double bar. See “Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(b) Pro Forma Discussion and Analysis.”

	Year ended December 31,				
	1992	1993	1994	1995	1996
<i>(U.S. Dollars in thousands, except percentages, ratios, and per common share data)</i>					
INCOME STATEMENT DATA:					
IAS:					
Interest income.....	US\$241,515	US\$265,413	US\$315,170	US\$449,680	US\$654,563
Interest expense.....	133,549	146,032	152,411	210,534	335,617
Net interest income.....	107,966	119,381	162,759	239,146	318,946
Provision for loan losses (1)(2).....	29,824	31,928	19,211	29,653	57,835
Net interest income after provision for loan losses.....	78,142	87,453	143,548	209,493	261,111
Fees and commissions from banking services.....	65,454	74,058	93,113	101,463	123,224
Net gains from sales of securities.....	3,530	20,046	7,942	6,120	12,202
Net gains on foreign exchange transactions.....	28,835	20,353	24,359	26,546	23,661
Net premiums earned.....	—	—	—	11,689	78,639
Other income.....	20,577	15,349	13,430	23,165	38,402
Claims on insurance activities.....	—	—	—	11,269	65,944
Operating expenses.....	180,375	191,990	212,129	243,502	315,392
Income before income tax, result from exposure to inflation and translation result, and minority interest.....	16,163	25,269	70,263	123,705	155,903
Result of exposure to inflation and translation result.....	20,746	15,616	(5,207)	4,667	15,804
Income tax.....	(11,060)	(12,687)	(18,385)	(30,672)	(42,564)
Minority interest.....	—	—	—	(9,650)	(12,994)
Net income.....	25,849	28,198	46,671	88,050	116,149
Net income per Common Share (3).....	0.571	0.623	1.030	1.231	1.624
U.S. GAAP:					
Net income.....	27,757	33,651	47,972	85,062	128,859
Net income per Common Share (3).....	0.613	0.743	1.059	1.190	1.802
BALANCE SHEET DATA:					
IAS:					
Total assets.....	2,090,471	2,543,228	3,340,450	5,096,469	6,247,457
Total loans (4).....	960,501	1,338,310	1,979,239	3,040,169	3,850,716
Reserves for loan losses (1).....	77,362	101,456	106,678	119,609	160,601
Total deposits.....	1,472,067	2,001,477	2,647,407	3,667,516	4,435,087
Shareholders' equity.....	254,076	275,306	310,317	572,041	664,009
U.S. GAAP:					
Shareholders' equity.....	251,424	278,525	314,650	566,063	665,512
SELECTED RATIOS:					
IAS:					
Net interest margin (5).....	8.07%	6.46%	6.70%	6.99%	6.76%
Return on average total assets (6).....	1.43	1.22	1.59	2.09	2.05
Return on average shareholders' equity (7).....	10.63	10.65	15.94	19.96	18.79
Operating expenses as a percentage of net interest and non-interest income (8).....	79.68	77.05	70.33	59.66	53.00
Operating expenses as a percentage of average assets.....	10.00	8.29	7.21	5.77	5.56
Shareholders' equity as a percentage of period end total assets.....	12.15	10.83	9.29	11.22	10.63
Regulatory capital as a percentage of risk-weighted assets (9).....	14.00	10.33	8.93	13.76	11.19
Total past due loan amounts as a percentage of total loans (10).....	4.27	5.70	3.45	2.42	3.23
Reserve for loan losses as a percentage of total loans.....	5.36	7.58	5.39	3.93	4.17
Reserves of loan losses as a percentage of total loans and other contingent credits (11).....	4.78	5.42	3.92	3.03	3.23
Reserves for loan losses as a percentage of total past due loans (12).....	125.67	133.01	156.14	162.68	129.02
Reserves for loan losses as a percentage of substandard loans (13).....	45.05	46.37	52.10	55.97	52.89

- (1) Provision for loan losses and reserve for loan losses include provisions and reserves with respect to total loans and other credits. See Notes 6 and 15 to the Credicorp Consolidated Financial Statements for information on the contingent liabilities of Credicorp.
- (2) Net of reversals of reserves from prior years, transfers and charge-offs, which amounted to US\$8.0 million in 1992, US\$20.9 million in 1993, US\$19.2 million in 1994, US\$23.2 million in 1995, and US\$14.0 million in 1996, respectively. See Note 6(d) to the Credicorp Consolidated Financial Statements for additional detail.
- (3) As of December 31, 1996, Credicorp had issued 71.5 million Common Shares of which 10.2 million treasury shares are held by BCP, ASHC and PPS. Per Common Share data presented assumes 71.5 million Common Shares outstanding as of December 31, 1996 and 1995, and 45.3 million Common Shares outstanding in periods prior to 1995. Credicorp believes that this presentation is appropriate since all share issuances by BCP prior to the Exchange Offer were in the form of share dividends and capitalization of inflation adjustments. On February 20, 1997, Credicorp declared a stock dividend increasing the number of Common Shares issued to 85.8 million of which 12.2 million treasury shares are held by BCP, ASHC and PPS. See “—(a) Dividends.”
- (4) Net of unearned interest, but prior to reserve for loan losses. In addition to loans outstanding, Credicorp had contingent credits of US\$673.7 million, US\$559.8 million, US\$747.6 million, US\$906.6 million, and US\$1,119.5 million at December 31, 1992, 1993, 1994, 1995 and 1996, respectively. See Note 15 to the Credicorp Consolidated Financial Statements.
- (5) Net interest income as a percentage of average interest-earning assets, computed as the average of period-beginning and period-ending balances.
- (6) Net income as a percentage of average total assets, computed as the average of period-beginning and period-ending balances.
- (7) Net income as a percentage of average shareholders' equity, computed as the average of period-beginning and period-ending balances.
- (8) Total operating expenses as a percentage of the sum of net interest income and noninterest income.
- (9) BCP's regulatory capital calculated in accordance with SBS requirements. BCP is not required by the SBS to determine capital adequacy ratios based on consolidated financial statements. Peruvian banks were not required to calculate capital adequacy ratios prior to 1992. Prior to 1993, Cayman Islands banking regulations did not require the calculation by ASB of risk-weighted assets. ASB has not prepared any such calculation for 1992. For the years 1993 and 1994, ASB's risk-weighted assets were calculated using risk-based guidelines adopted by the Basel Accord as implemented in the Cayman Islands. See “Item 9. Management's Discussion and Analysis of Financial Condition and Result of Operation—(a) Historical Discussion and Analysis—Financial Condition—Regulatory Capital.”
- (10) BCP considers loans past due after no more than 15 days, except for consumer loans which are considered past due after 30 days, and other installment loans, which include mortgage loans, which are considered past due after 90 days. ASHC considers past due all overdue loans except for consumer loans, which are considered past due when the scheduled principal and/or interest payments are overdue for more than 90 days. See “Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations —(c) Selected Statistical Information— Classification of the Loan Portfolio Based on the Borrower's Payment Performance.”
- (11) Other contingent credits primarily consist of guarantees and letters of credit. See Note 15 to the Credicorp Consolidated Financial Statements.
- (12) Reserve for loan losses, as a percentage of all past due loans, with no reduction for collateral securing such loans. Reserve for loan losses includes reserves with respect to total loans and other credits. See Note 1 above.
- (13) Reserve for loan losses, as a percentage of loans classified in categories C, D or E.

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

(a) Historical Discussion and Analysis

The following discussion is based upon information contained in the Credicorp Consolidated Financial Statements and should be read in conjunction therewith. The Credicorp Consolidated Financial Statements have been prepared in accordance with IAS, which differ in certain significant respects from U.S. GAAP. See Note 18 to the Credicorp Consolidated Financial Statements, which provides a description of the principal differences between IAS and U.S. GAAP, as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp's net income and shareholders' equity. The discussion in this section regarding interest rates is based on nominal interest rates. For a comparison of nominal interest rates with real interest rates, see “—(c) Selected Statistical Information—Average Balance Sheets and Income from Interest-Earning Assets—Real Average Interest Rates.”

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

ASHC and PPS as of December 31, 1995 and the results of operations of BCP for 1995 and of PPS and ASHC for the last two months of 1995. On the other hand, the financial information and discussion and analysis presented below for 1994 reflect the financial position and results of BCP but not of PPS or ASHC.

See “—(b) Pro Forma Discussion and Analysis” and “Item 8. Selected Financial Data — (b) Selected Financial Data.”

At December 31, 1996 approximately 82% of Credicorp's deposits and 86% of its loans were denominated in U.S. Dollars, reflecting the historic lack of confidence in the Peruvian currency as a result of high inflation rates in prior years. With the reduction in the rate of inflation, Credicorp has begun to attract more Nuevo Sol-denominated deposits and to offer more Nuevo Sol-denominated loans. Nevertheless, Credicorp expects the majority of its deposits and loans to continue to be denominated in U.S. Dollars.

Results of Operations for the Three Years Ended December 31, 1996

The following table sets forth, for the years 1994, 1995 and 1996, the principal components of Credicorp's net income:

	Year ended December 31,		
	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>		
Interest income	US\$315,170	US\$449,680	US\$654,563
Interest expense	152,411	210,534	335,617
Net interest income	US\$162,759	US\$239,146	US\$318,946
Provision for loan losses	19,211	29,653	57,835
Net interest income after provisions	US\$143,548	US\$209,493	US\$261,111
Noninterest income	138,844	168,983	276,128
Claims on insurance activities	--	11,269	65,944
Operating expenses	212,129	243,502	315,392
Income before result of exposure to inflation and translation result, income tax and minority interest	US\$70,263	US\$123,705	US\$155,903
Result of exposure to inflation and translation result	US\$ (5,207)	US\$ 4,667	US\$ 15,804
Income Tax	(18,385)	(30,672)	(42,564)
Minority Interest	—	(9,650)	(12,994)
Net income	US\$ 46,671	US\$ 88,050	US\$116,149

Credicorp's net income increased 88.7% from 1994 to 1995 and 31.9% from 1995 to 1996, respectively. These results reflect a substantial increase in the volume of operations, improved intermediation margins, increased income from commissions and insurance premiums, and lower operating expenses. There can be no assurance that Credicorp will experience in the future similar increases in net income.

Net Interest Income

Net interest income represents the difference between interest income on interest earning assets and

the interest paid on interest bearing liabilities. The following table sets forth the components of net interest income:

	Year ended December 31,		
	1994	1995	1996
	(U.S. Dollars in thousands)		
Interest income:			
Loans	US\$274,433	US\$386,489	US\$562,624
Deposits	8,407	12,848	24,998
Deposits in Central Bank	25,685	36,483	41,677
Investment Securities	5,580	11,234	22,176
Dividends.....	1,065	2,626	3,088
Total interest income	US\$315,170	US\$449,680	US\$654,563
Interest expense:			
Saving deposits	US\$70,036	US\$ 72,364	US\$ 79,297
Time Deposits	58,185	79,514	171,925
Borrowing from other financial institutions	18,800	53,093	71,084
Demand deposits	5,390	5,563	13,311
Total interest expense.....	US\$152,411	US\$210,534	US\$335,617
Net interest income.....	US\$162,759	US\$239,146	US\$318,946

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

Credicorp's net interest income increased 33.4% in 1996 compared to 1995, which in turn represented a 46.9% increase compared to 1994.

Interest Income. Interest income increased 45.6% in 1996 compared to 1995, which in turn represented a 42.7% increase compared to 1994. The increase in interest income was due principally to growth in volume of loans with slight variations in net interest margins, as well to the inclusion of twelve months of ASHC's results in 1996 versus two months in 1995 and none in 1994. The 1995 increase was compounded by an increase in average nominal interest rates received by Credicorp on its interest-earning assets, which increased from 12.6% in 1994 to 13.2% in 1995. Such rates remained at 13.2% through 1996.

Although loan growth was achieved in each of Credicorp's business areas generally reflecting improvements in the Peruvian economy, loan growth was particularly significant in Retail Banking, reflecting the strategy of Credicorp to expand its lending in this area. See “—(c) Selected Statistical Information.” However, average nominal interest rates received by Credicorp on its loan portfolio decreased to 16.1% in 1996 from 16.4% in 1995 and 16.6% in 1994. With respect to U.S. Dollar-denominated loans, the average nominal interest rate increased from 13.1% in 1994 to 13.7% in 1995 and further to 13.9% in 1996 and, with respect to Nuevo Sol-denominated loans, decreased from 37.1% in 1994 to 30.6% in 1995 and to 28.6% in 1996.

The quarterly average balance of Credicorp's U.S. Dollar-denominated loan portfolio increased 48.3% to US\$2,951.0 million in 1996 from US\$1,990.4 million in 1995, which in turn represented a 41.0% increase from US\$1,411.4 million in 1994. The average balance of BCP's Nuevo Sol-denominated loan portfolio increased 43.5% to US\$535.8 million in 1996 from US\$373.3 million in 1995, which in turn represented a 55.4% increase from US\$240.2 million in 1994. The higher percentage growth in U.S. Dollar-denominated

loans relative to Nuevo Sol-denominated loans in 1996 was due to the inclusion throughout 1996 of ASHC's loan balances compared to only the last quarter of 1995 in such year's average balances. Without the inclusion of such loans, the growth in U.S. Dollar-denominated loans in 1996 would have been 35.7%, lower than Nuevo Sol-denominated loan due to the greater demand for Nuevo Sol-denominated loans and the greater availability of Nuevo Sol-denominated deposits, both of which reflect renewed confidence in the Peruvian currency as a result of the lower levels of inflation and the general economic improvements in Peru. Credicorp expects Nuevo Sol-denominated loans to continue to grow at a faster rate than U.S. Dollar-denominated loans as it focuses on expanding its Retail Banking business. See "Item 1. Description of Business — (b) Commercial Banking—(iii) Retail Banking" and "—(c) Selected Statistical Information."

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

Interest expense. Interest expense increased 59.4% in 1996 compared to 1995, which in turn represented a 38.1% increase compared to 1994. The increase in each period was due principally to an increase in the volume of deposits, the effects of which were (i) partially offset by a decrease in the average nominal interest rate paid in 1995 on Nuevo Sol-denominated deposits and (ii) compounded by an increase in the average nominal interest rates paid on U.S. Dollar-denominated deposits in 1995 and 1996, and in Nuevo Sol-denominated deposits in 1996. The increase was also due to the inclusion of twelve months of ASHC's results in 1996 compared to two months of ASHC's results in 1995. Interest rates, with respect to U.S. Dollar-denominated deposits, increased from 4.6% in 1994 to 5.0% in 1995 and to 6.0% in 1996 and, with respect to Nuevo Sol-denominated deposits, decreased from 11.4% in 1994 to 8.3% in 1995, but increased to 8.7% in 1996. The increases in the average nominal interest rate paid on deposits in 1996 resulted primarily from increased competition in the Peruvian market. See "Item 1. Description of Business—(i) Competition" and "— (c) Selected Statistical Information."

Credicorp's average U.S. Dollar-denominated deposits increased 36.1% to US\$3,374.5 million in 1996 from US\$2,479.6 million in 1995, which in turn represented a 28.8% increase from US\$1,925.1 million in 1994. Credicorp's average Nuevo Sol-denominated deposits increased 28.2% to US\$717.1 million in 1996 from US\$559.2 million in 1995, which in turn represented a 40.6% increase from US\$397.8 million in 1994. See "—(c) Selected Statistical Information."

Net interest margin. Credicorp's net interest margin (net interest income divided by average interest-earning assets) increased from 6.7% in 1994 to 7.0% in 1995, but decreased to 6.8% in 1996. The increase in 1995 is the result of (i) an increase in the average nominal rate received by Credicorp on its interest-earning assets greater than the increase in the average nominal rate paid by Credicorp on its interest-bearing liabilities and (ii) a greater increase in interest-earning assets than interest-bearing liabilities, reflecting the re-direction of available funds, from low-yielding interbank deposits into, particularly, higher-yielding Nuevo Sol-denominated loans, as the number of creditworthy borrowers increased with the improvement of the Peruvian economy. The decrease in 1996 was due to a greater increase in the average nominal rate paid by Credicorp on its interest-bearing liabilities than the increase in the average nominal rate paid by Credicorp on its interest-earning assets, as a consequence of increased competition for deposits and to decreased availability of Nuevo Sol sources of funding. See "—(c) Selected Statistical Information."

Provision for Loan Losses

Credicorp classifies by risk category all of its loans and other credits. Credicorp establishes specific loan loss reserves based on the classification of particular loans (see “—(c) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio”), as well as generic loss reserves, which until June 30, 1995 were encouraged, but not required, by applicable regulations. As of June 30, 1995, SBS regulations require generic reserves of between 1% to 3% of certain loans. Law 26702 further requires banks to establish a generic loan loss provision of up to 1% of the bank’s total loan and credit portfolio classified as A (Normal). The final percentage is to be determined by the SBS, which has yet to issue regulations. See “—(c) Selected Statistical Information—Loan Portfolio — Classification of the Loan Portfolio.” Credicorp’s policy is to maintain generic reserves of not more than 2% of BCP’s total credit exposure (loans plus contingent liabilities), net of specific reserves and certain readily marketable collateral, provided that the general reserves not be less than 10% of total consumer and credit card loans. Credicorp’s policy is also to maintain general reserves with respect to ASHC in amounts it deems appropriate. See “—(c) Selected Statistical Information—Loan Portfolio—Classification of the Loan Portfolio.” Credicorp does not anticipate that the expansion of its loan portfolio or the consolidation of the activities of its subsidiaries will necessitate a change in its generic reserve policy.

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

	Year ended December 31,				
	1992	1993	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>				
Reserves for loan losses at					
the beginning of the year.....	US\$51,398	US\$ 77,362	US\$101,456	US\$106,678	US\$119,609
Additional provisions.....	37,881	52,812	38,386	52,812	71,871
Reversals of previous provisions					
(net) and transfers	(8,057)	(20,884)	(19,175)	(23,159)	(14,036)
Specific reserves	(15,568)	(35,981)	(19,175)	(23,159)	(14,036)
Generic reserves.....	7,511	15,097	--	--	--
Write-offs	--	--	(5,385)	(13,833)	(16,291)
Monetary Correction and Other.....	(3,860)	(7,834)	(8,604)	(2,889)	(552)
Reserves for loan losses at the					
end of the year.....	US\$77,362	US\$101,456	US\$106,678	US\$119,609	US\$160,601

Provisions for loan losses increased 95.0% in 1996 compared to 1995, and 54.4% in 1995 compared to 1994. The increase in the provisions from 1995 to 1996 was due primarily to loan quality deterioration caused by a decrease in the general level of economic activity, which led to increased levels of specific provisions and to decreased reversals of prior year provisions. During 1996 the Peruvian government induced an economic slowdown through conservative management of fiscal expenditures. Approximately 50% of the provisions were related to the consumer loan portfolio, and most of the remaining provisions to loans to small and medium sized companies.

The increase in the provisions from 1994 to 1995 was due primarily to increased specific provisions compared with 1994 attributable to (i) the increase in Credicorp’s loan portfolio and (ii) historically low

specific provisions being recorded in 1994 due to a significant increase in 1994 in the credit quality of the loan portfolio. The effects of the increase in specific provisions were substantially offset by an increase in write-offs of specific provisions in 1995 compared to 1994. The increase in loans charged-off in 1996 and 1995 was primarily attributable to the removal of loans that were fully provisioned and considered unrecoverable.

Additional generic provisions were made in 1996 and 1995 in accordance with stated policy. Reserves as a percentage of past due loans decreased to 129.0% at year-end 1996 from 162.7% at year-end 1995 and reserves as a percentage of substandard loans decreased to 52.9% at year-end 1996 from 56.0% at year-end 1995. Given the changing composition of Credicorp's loan portfolio, Credicorp's historical loss experience may not be indicative of its future loan loss-experience.

Noninterest income

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

	Year ended December 31,		
	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>		
Fees and Commissions from banking services	US\$93,113	US\$101,463	US\$123,224
Net gains from sales of securities	7,942	6,120	12,202
Net gains on foreign exchange transactions.....	24,359	26,546	23,661
Net premiums earned.....	--	11,689	78,639
Other income	13,430	23,165	38,402
Total non-interest income.....	US\$138,844	US\$168,983	US\$276,128

Credicorp's noninterest income increased 63.4% in 1996 compared to 1995, after having increased 21.7% from 1994. Excluding the increase attributable to the inclusion of net premiums earned, noninterest income increased 25.6% in 1996 compared to 1995, and 13.3% in 1995 from 1994. The increases in both 1996 and 1995 were due principally to increased fees and commissions, which increased 21.4% in 1996 compared to 1995 and 9.0% in 1995 compared to 1994. The principal sources of fee and commission income are account maintenance charges, credit card fees, collection fees, fund transfer fees, and fees relating to foreign trade operations. The increases in 1996 and 1995 were due to strong increases principally in foreign trade and contingencies fees, account maintenance and fund transfer fees, as well as the inclusion of fees for various services for which Credicorp began charging in 1995.

Net gains from the sales of securities, principally equities, increased in 1996 to US\$12.2 million from US\$6.1 million in 1995, which in turn represented a decrease from US\$7.9 million in 1994. Regulations prior to the new banking law, Law 26702, required banks to establish a reserve equal to the market value of equity securities held for more than one year. As a result, BCP generally did not hold any equity securities longer than one year. The gain in 1996 reflects the particularly strong performance of the Lima Stock Exchange in that year, evidenced by a 15% increase in the IGBVL as compared to a 12% decrease in 1995, and a 51% increase in 1994.

Credicorp's gains from foreign exchange transactions decreased 10.9% in 1996 compared to 1995, after having increased 9.0% in 1995. Gains from foreign exchange transactions do not arise from proprietary trading on the part of Credicorp. Rather, the decrease in 1996 reflect a reduction in the buy/sell spread on

U.S. Dollars from 0.38% in 1994 to 0.35% in 1995 and to 0.29% in 1996, reflecting increased stability and competition in the foreign exchange markets, partially offset by increased activity in the foreign exchange markets resulting from growth in international trade and foreign direct investment in Peru, as well as investment transactions on the Lima Stock Exchange.

Other income increased 65.8% in 1996 compared to 1995, after increasing 72.5% in 1995. Other income principally consists of customer service charges and certain nonrecurring income items. Other income in 1996 increased compared to 1995 mainly because of revenues from the inclusion of twelve months of results from the activities of PPS compared to two months the year before, which increased from US\$3.3 million in 1995 to US\$12.7 million in 1996, and to a 52.7% increase in fees for investment banking services. Other income in 1995 increased compared to 1994 principally as the result of increased income from customer services, which increased 30.6%, and corporate finance fees, which increased 100.0%.

The increase in net premium reflects the inclusion of the results of PPS for the twelve months of 1996 compared to results for the last two months of 1995 following the Exchange Offer. See “Item 1. Description of Business—(d) Insurance.”

Claims on Insurance Activities

The increase in claims on insurance activities reflects the inclusion of the results of PPS for the twelve months of 1996 compared to results for the last two months of 1995 following the Exchange Offer. See “Item 1. Description of Business—(d) Insurance.”

Operating Expenses

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

	Year ended December 31,		
	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>		
Salaries and employee benefits	US\$105,194	US\$122,808	US\$153,876
General administrative.....	82,028	89,629	119,814
Depreciation and amortization	16,867	18,932	25,074
Other.....	8,040	12,133	16,628
Total operating expenses	US\$212,129	US\$243,502	US\$315,392

Credicorp's operating expenses (aside from provisions for loan losses) increased 29.5% in 1996 compared to 1995, which in turn represented a 14.8% increase compared to 1994. The largest component of the increase in operating expense in each period was attributable to salaries and employee benefits, which increased 25.3% to US\$153.9 million in 1996 from US\$122.8 million in 1995, which in turn represented a 16.7% increase from US\$105.2 million in 1994. The increase in salaries and benefits in 1996 compared to 1995 is due principally to the increase in the number of personnel which, considering only BCP, increased to 6,932 in 1996 from 5,570 in 1995, after increasing from 5,237 in 1994. Most of the personnel increase in 1996 was accounted for by the sales force of Solución, which began operating in August of 1996, and to increased teller positions at BCP. BCP increased teller positions as a result of its expanded branch network and increased hours of operations at branches. The number of personnel at ASHC and PPS remained substantially flat during this period. In addition, mostly due to competitive pressure, salaries increased in real

terms during 1996.

Credicorp's general and administrative expenses (which include taxes other than income taxes) increased 33.7% in 1996 compared to 1995 and 9.3% in 1995 compared to 1994. The increase in each period generally reflects the costs associated with the expansion of fee generating services and other noninterest income. Depreciation and amortization expense increased 32.4% in 1996 compared to 1995 and 12.2% in 1995 compared to 1994 as the result of increased investments (particularly in information systems) resulting from the increased volume of transactions and loans experienced in those periods.

Other expenses increased 37.0% in 1996 compared to 1995 after growing 50.9% in 1995 compared to 1994. Other expenses consist primarily of certain contingency provisions and other miscellaneous items. The increase in 1996 is due principally to the inclusion of results for the twelve months of 1996 compared to two months in 1995 of PPS and Credicorp's own expenditures, which include goodwill amortization expense.

The substantial increase in other expenses in 1995 compared to 1994 was due to an extraordinary allowance of US\$2.5 million in 1995 for unrealized losses on Credicorp's securities portfolio.

Result of Exposure to Inflation and Translation Result

Result of exposure to inflation is included in the Credicorp Consolidated Financial Statements through December 31, 1994; however, Peru changed in status from a hyperinflationary to non-hyperinflationary economy in 1995 (as defined under IAS). See "Item 8. Selected Financial Data—(b) Selected Financial Data." Result of exposure to inflation includes (a) the effects of exposure to inflation on Credicorp's net monetary position and (b) the effects of exposure to a devaluation on Credicorp's net U.S. Dollar asset position. Translation result is included in the Credicorp Consolidated Financial Statements since December 31, 1994. Since Credicorp's financial statements are kept in U.S. Dollars, the functional currency, the translation result reflects exposure to devaluation of net monetary positions in other currencies.

In 1996 Credicorp had a US\$15.8 million translation gain, compared to a US\$4.7 million translation gain the year before. Credicorp experienced a loss of US\$5.2 million from exposure to inflation in 1994, since the loss from exposure to inflation of Credicorp's net monetary asset position was only partially offset by gains on exchange differences arising from converting the net U.S. Dollar asset position into Nuevos Soles given that the Nuevo Sol appreciated in value relative to the U.S. Dollar, in real terms.

Income Taxes

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

Credicorp's Peruvian subsidiaries, including BCP, are subject to corporate taxation on income under the Peruvian tax law. The statutory income tax rate payable in Peru is 30% of taxable income, which includes the result of exposure to inflation. Starting in 1992, Peruvian companies were also subject to an alternative minimum assets tax of 2%, which was repealed in May 1997. For fiscal year 1997, companies are subject to an extraordinary tax on net assets of 0.5%. In the case of banks, both such assets taxes are calculated based on 50% of assets (net of depreciation, reserve for loan losses and common stock investments in Peruvian corporations) as of December 31 of the tax year in question. Beginning in 1994, amounts required to be held by BCP in the Central Bank as reserve deposits may be deducted from the asset calculation for determination

of the alternative minimum tax and the extraordinary tax. Both taxes are payable even if an entity incurs a loss in the tax year in question. Peruvian tax legislation is applicable to legal entities established in Peru, and on an individual (not consolidated) basis. Credicorp's non-Peruvian subsidiaries are not subject to taxation in Peru and their assets are not included in the calculation of the Peruvian alternative minimum tax.

ASHC is not subject to taxation in the Cayman Islands or Panama. In 1996 a US\$101 thousand tax expense was incurred in relation to a subsidiary ceasing operations. ASHC's operations in the United States are subject to U.S. federal and Florida state income taxation. For purposes of determining United States taxable income, certain tax deductible items are taken into consideration and for 1994, 1995 and 1996 no net taxable income was generated. As of December 31, 1996, ASHC's Miami agency had United States federal tax loss carryforwards to reduce future taxable income of approximately US\$10.1 million (US\$7.7 million as of December 31, 1995).

Prior to 1995, there was no corporate income tax in Bolivia. Although Bolivia adopted an income tax regime starting in 1995, due to BCB's ability to offset taxes paid other than income taxes from any income tax liability, no Bolivian income taxes have been payable.

Income taxes paid by Credicorp increased 38.8% to US\$42.6 million in 1996 from US\$30.7 million in 1995, which in turn represented a 66.8% increase from US\$18.4 million in 1994, reflecting the increases in Credicorp's taxable income and asset base. Since 1994, Credicorp has paid the Peruvian income tax at the statutory rate. The effective tax rate in 1995 and 1996 was 25.8% and 26.8%, respectively.

Financial Condition

Total Assets

At December 31, 1996, Credicorp had total assets of US\$6,247.5 million, a 22.6% increase over total assets of US\$5,096.5 million at December 31, 1995. This increase of US\$1,151.0 million was due primarily to an increase in Credicorp's loan portfolio as the result of the growth in the Peruvian economy. From December 31, 1995 through December 31, 1996, the Peruvian financial system grew by 22.7% in terms of deposits and 33.8% in terms of loans, while GDP grew 2.8%. Although no assurance can be given, Credicorp expects its total assets to grow in the following years at a faster rate than GDP because the hyperinflation in prior years, particularly in 1990, had resulted in extremely low liquidity in the Peruvian economy. The ratio of financial intermediation, as measured by the sum of currency in circulation, bank deposits and other bank obligations to the public, divided by GDP, was reduced to 5.2% in 1990 and, although this ratio reached approximately 18% in 1996, it is still below the ratio of 26.7% that was reached in the early 1970s. Nevertheless, Credicorp expects the rate of growth in total assets to decline from the unusually high levels experienced in the last three years.

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

At December 31, 1996, Credicorp's total loans equaled US\$3,850.7 million, which represented 61.6% of total assets. Net of reserves for loan losses, total loans equaled US\$3,690.1 million. At December 31,

1995, Credicorp's total loans equaled US\$3,040.2 million, which represented 59.7% of total assets. Net of reserves for loan losses, total loans equaled US\$2,920.6 million. Credicorp's total loans grew from December 31, 1995 to December 31, 1996 by 26.7%, and net of loan loss reserves, total loans grew 26.3% in the same period for the reasons specified in the foregoing paragraph.

Credicorp's deposits with the Central Bank increased 14.9% between December 31, 1996 and December 31, 1995, with balances of US\$950.8 million and US\$837.0 million as of such dates, respectively. This increase is due to the increased volume of deposits resulting in an increased reserve requirement by the Central Bank. Credicorp's securities holdings (which include marketable securities and investments) increased to US\$461.4 million at December 31, 1996 from US\$351.9 million at December 31, 1995. During 1996, the marketable securities portfolio increased 42.1% to US\$308.8 million and the available for sale securities portfolio increased 3.4% to US\$152.5 million.

Total Liabilities

At December 31, 1996, Credicorp had total liabilities of US\$5,583.4 million, a 23.4% increase over total liabilities of US\$4,524.4 million at December 31, 1995. The increase of US\$1,059.0 million in total liabilities was due principally to a US\$767.6 million increase in Credicorp's deposit base. At December 31, 1996, Credicorp had total deposits of US\$4,435.1 million, a 20.9% increase over total deposits of US\$3,667.5 million at December 31, 1995. The significant increase in Credicorp's overall deposits was due primarily to increased depositor confidence and increased availability of funds, both generated by the strong performance of the Peruvian economy in 1994, and the inclusion of ASHC's deposits. Credicorp believes that its extensive branch network and reputation in the Peruvian market have allowed it to compete effectively for new deposits and to attract stable, low cost savings deposits. Growth during year 1996 was 37.2% in demand deposits, 18.4% in time deposits, and 17.4% in savings deposits. At December 31, 1996, Credicorp had 41.8% of the total savings deposits in the Peruvian banking system and 29.4% of total deposits, both of which are the highest of any Peruvian bank. An important characteristic of Credicorp's deposit base is that, as of December 31, 1996, it included 51.7% of the entire Peruvian banking system's CTS deposits. Credicorp believes that it traditionally has attracted a high percentage of the savings and CTS deposit market because of its reputation as a sound institution and its extensive branch network. Credicorp's funding strategy has been structured around maintaining a diversified deposit base. Credicorp's core deposits (savings, CTS and demand deposits) accounted for more than 68% of total deposits at December 31, 1996, and, traditionally, for more than 72% of total deposits considering BCP individually. Credicorp's market share in this type of deposit amounts to 39.6% of the system at December 31, 1996.

Asset and Liability Management

Credicorp's asset and liability management policy seeks to ensure sufficient liquidity to meet operational funding requirements, as well as to supervise and control interest rate and exchange risks. Credicorp has recently commenced integrating the asset and liability management and other treasury operations of its subsidiaries and expects to complete that integration by the end of 1997. In BCP, decisions regarding management of liquidity, interest rate policy, foreign exchange position and other significant asset and liability management matters are made by a committee consisting of the General Manager, the Executive Vice President, Credicorp's Senior Vice President—Insurance, three Central Managers and four Division Managers. The committee meets weekly. Day-to-day asset and management liability decisions are made by the Central Manager of Finance and the Treasury Department. In ASHC, decisions regarding asset and liability management are made by its President and Senior Vice President-Manager of Operations and

Administration and Chief Financial Officer.

Liquidity

The following table reflects the maturity and currency structure of Credicorp's assets, liabilities and shareholders' equity as of December 31, 1996:

	Year ended December 31,			
	Nuevos Soles	U.S. Dollars	Total	Percentage
<i>(U.S. Dollars in thousands, except percentages)</i>				
Assets:				
Cash and due from banks.....	US\$ 129,861	US\$1,334,846	US\$1,464,707	23.44%
Other assets (1)				
Less than 3 months.....	518,111	2,364,819	2,882,930	46.15
From 3 months to 12 months.....	93,820	588,934	682,753	10.93
More than 12 months	154,269	773,665	927,934	14.85
Bank premises and equipment and others	186,979	262,755	449,734	7.20
Reserves for loan losses	(19,649)	(140,952)	(160,601)	(2.57)
Total	US\$1,063,389	US\$5,184,068	US\$6,247,457	100.00%
Percentage of total assets	17.02%	82.98%	100.00%	
Liabilities and stockholders' equity:				
Non-interest bearing deposits.....	US\$ 192,138	US\$374,697	US\$566,835	9.07%
Other liabilities (2)				
Less than 3 months (3).....	616,952	3,499,869	4,116,821	65.90
From 3 months to 12 months.....	110,316	549,947	660,263	10.57
More than 12 months	2,433	237,096	239,529	3.83
Stockholders' equity.....	443,450	220,559	664,009	10.63
Total	US\$1,365,288	US\$4,882,169	US\$6,247,457	100.00%
Percentage of total liabilities and stockholders' equity	21.85%	78.15%	100.00%	

- (1) Consists of loans, marketable securities, investments, interest and other receivables, deferred expenses and other assets.
- (2) Demand, savings, certificates of deposit and time deposits.
- (3) Includes US\$566.0 million of CTS deposits which, subject to certain exceptions, may be withdrawn by the depositor only upon termination of employment or upon transfer to another bank. Although classified as short-term, historically these deposits have been relatively stable.

Credicorp manages its assets and liabilities to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Financial obligations arise from withdrawals of deposits, repayment on maturity of purchased funds, extensions of loans or other forms of credit, and working capital needs.

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

Credicorp's principal source of funding is customer deposits with BCP's Retail Banking division and ASHC's Private Banking division, and at PPS, premiums and amounts earned on invested assets. The growth of Credicorp's deposit base over the past three years has enabled Credicorp to increase significantly its lending activity. Credicorp believes that funds from its deposit-taking operations generally will continue to meet Credicorp's liquidity needs for the foreseeable future. The Retail Banking division has developed a diversified and stable deposit base and the Private Banking division has developed a stable deposit base that, in each case, provides Credicorp with a low cost source of funding. This deposit base has traditionally been one of Credicorp's important strengths. BCP at times has accessed Peru's short-term interbank deposit market, although it is generally a lender in such market. The Central Bank's discount window, which makes short-term loans to banks at premium rates, is also available as a short-term funding source, but has been used infrequently by BCP. ASHC also has the ability to borrow from correspondent banks on an overnight basis at rates tied to the Federal Funds rate as well as funding lines from international financial institutions. At the end of 1996, Credicorp had credit lines available from correspondent banks totaling approximately US\$1,292 million, including US\$55 million for long-term facilities that are mainly used for project financing. The latter figure includes funding from CAF, IFC and other international lenders.

In addition, mortgage loans may be funded by mortgage funding bonds (*letras hipotecarias*) that are sold by BCP in the market. Mortgage funding bonds are instruments sold by BCP with payment terms that are matched to the related mortgage loans, thereby reducing BCP's exposure to interest rate fluctuations and inflation. Mortgage funding bonds bear interest at a rate equal to a fixed spread (market interest rate plus commission) that is tied to the rate of inflation. The SBS authorized the issuance of such instruments in mid-1994, in order to promote the home financing sector. A source of funds specific to leasing operations are leasing bonds issued by lease financing companies, the terms of which are specified in the Peruvian leasing regulations. As of December 31, 1996, BCP had US\$60.5 million of outstanding leasing bonds. These bonds have maturities extending from three to five years and bear the same interest as 360 day time deposits. In addition to its regular sources of funds, BCP is an intermediary of several medium-term credit lines for project financings in certain economic activities, from the Peruvian development financing company, COFIDE, and other international financial institutions like CAF and IFC.

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

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

Interest Rate Sensitivity

A key component of Credicorp's asset and liability management policy is the management of interest rate sensitivity. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or repricing characteristics of interest earning assets and interest bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities

mature or reprice in that period. Any mismatch of interest earning assets and interest bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decrease in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income.

The following table reflects, according to maturity and by currency, the interest-earning assets and interest-bearing liabilities of Credicorp as of December 31, 1996, and may not be representative of positions at other times. In addition, variations in interest rate sensitivity may arise within the repricing periods presented or among the currencies in which interest rate positions are held. Credicorp actively monitors and manages its interest rate sensitivity and has the ability to reprice relatively promptly both its interest earning assets and interest bearing liabilities. On the basis of its gap position at December 31, 1996, Credicorp believes that a significant increase or decrease in interest rates would not reasonably be expected to have a material effect on Credicorp's financial condition or results of operations.

		Earliest Repricing Interval at December 31,			
	Overnight to 3 months	Over 3 to 12 months	Total within one year	Over 1 year	Total
(U.S. Dollars in thousands, except percentages)					
Nuevo Sol-denominated:					
Assets:					
Loans, net	US\$ 476,249	US\$ 54,406	US\$530,655	US\$ 27,248	US\$557,902
Investment securities	22,614	315	22,929	127,021	149,949
Deposits in other banks.....	349	—	349	—	349
Total	US\$ 499,212	US\$ 54,721	US\$ 553,932	US\$154,269	US\$708,201
Liabilities:					
Demand and Saving deposits	US\$ 421,533	US\$ —	US\$ 421,533	US\$ —	US\$ 421,533
Time deposits	100,558	6,565	107,123	2,433	109,556
Interbank deposits received	41,032	0	41,032	—	41,032
Bonds and other liabilities	6,308	0	6,308	13,446	19,754
Total	US\$ 569,432	US\$ 6,565	US\$ 575,996	US\$ 15,879	US\$ 591,875
Interest Sensitivity gap.....	(70,220)	48,156	(22,064)	138,390	116,326
Dollar-denominated:					
Assets:					
Loans, net	US\$2,023,681	US\$ 569,050	US\$2,592,731	US\$575,601	US\$3,168,333
Investment securities	54,367	58,983	113,350	198,064	311,414
Deposits in other banks, and other instruments.....	1,136,817	0	1,136,817	0	1,136,817
Total	US\$3,214,865	US\$ 628,033	US\$3,842,898	US\$ 773,665	US\$4,616,563
Liabilities:					
Demand and saving deposits	US\$2,097,188	US\$ 0	US\$2,097,188	US\$ —	US\$2,097,188
Time deposits	784,213	355,435	1,139,648	100,327	1,239,975
Interbank deposits received and borrowings	188,733	298,263	486,996	136,769	623,765
Bonds and Mortgage notes	—	0	0	27,324	27,324
Total	US\$3,070,134	US\$ 653,698	US\$3,723,832	US\$ 264,421	US\$3,988,252
Interest sensitivity gap	US\$ 144,732	US\$ (25,665)	US\$ 119,066	US\$ 509,244	US\$628,311
Total interest sensitivity gap	74,512	22,490	97,002	647,635	744,637
Cumulative interest sensitivity gap .	74,512	97,002	97,002	744,637	744,637

Total interest-earning assets	3,714,077	682,753	4,396,830	927,934	5,324,764
Cumulative interest-earning assets ..	3,714,077	4,396,830	4,396,830	5,324,764	5,324,764
Cumulative interest sensitivity gap as a percentage of cumulative interest earning assets	2.01%	2.21%	2.21%	13.98%	13.98%

(1) includes CTS

Exchange Rate Sensitivity

As of December 31, 1996, Credicorp's total U.S. Dollar-denominated assets were US\$4,780.4 million and its U.S. Dollar-denominated liabilities were US\$4,367.0 million, resulting in a net U.S. Dollar asset position of US\$413.4 million. Of such amount, approximately 40% represented the net U.S. Dollar asset position of Credicorp's non-Peruvian subsidiaries, which conduct all of their operations in U.S. Dollars, approximately 20% represented fully covered foreign currency forward sales, and approximately 40% constituted the U.S. Dollar position available for foreign currency operations. Credicorp considers its net U.S. Dollar asset position to be reasonable in view of the volume of its foreign currency activities and the environment in which it operates. Historically, in order to provide some protection from the combined effects of devaluation and inflation, Credicorp has followed, and continues to follow, a policy of maintaining the sum of its net U.S. Dollar assets, real estate assets and investments in equity securities at least equal to shareholders' equity.

Regulatory Capital

Credicorp's consolidated regulatory capital increased 14.5% to US\$599.7 million at December 31, 1996 from US\$523.8 million at December 31, 1995, which in turn represented a 104.8% increase over the regulatory capital of US\$255.8 million at December 31, 1994.

Pursuant to Peruvian law, banks are required to maintain a certain level of capital adequacy, measured as the ratio of risk-weighted assets to regulatory capital. Such capital adequacy is determined on an individual entity (unconsolidated) basis and only with respect to a bank's Peruvian operations. According to Law 26702, the new banking law, the SBS has authority to apply the limits on a consolidated basis. The enactment of specific SBS regulations is still pending. BCP (unconsolidated) is required to have a ratio of risk-weighted assets to regulatory capital of less than 12.5 to 1.0, which is reduced by the new banking law to 11.5 to 1.0 as of June 30, 1997, and further to 11.0 to 1.0 as of December 31, 1999. Risk-weighted assets are determined for ASB in accordance with the Basel Accord. As of December 31, 1996, Credicorp's ratio of risk-weighted assets to regulatory capital was 8.94 on a consolidated basis and 10.30 and 2.37 for BCP and ASB, respectively on an unconsolidated basis. Credicorp does not expect that the capital adequacy requirement will impede growth of Credicorp's loan portfolio. If loans grow at a rapid rate in 1997, however, Credicorp may choose to have a portion of its 1997 net income count toward regulatory capital or may seek to reallocate capital among its subsidiaries. See "Item 1. Description of Business—(l) Supervision and Regulation."

The following table analyzes Credicorp's regulatory capital and capital ratios, on a consolidated basis, at the dates indicated:

Regulatory Capital and Capital Adequacy Ratios

	As of December 31,			
	1993	1994	1995	1996
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Capital stock	US\$ 158,746	US\$ 169,060	US\$ 404,052	US\$ 454,119
Legal and other capital reserves	55,713	57,989	69,527	69,527
Generic loan loss reserves	20,656	26,933	43,299	52,205
Generic contingency loss reserves	1,327	3,969	7,025	11,211
Subordinated debt	0	0	0	13,446
Total	US\$ 236,442	US\$ 257,951	US\$ 523,903	US\$ 600,508
Less: investment in multilateral organizations and Banks	(4,968)	(2,179)	(117)	(696)
Total Regulatory Capital(1)	US\$ 231,474	US\$ 255,772	US\$ 523,786	US\$ 599,812
Risk-weighted assets (1)	2,241,628	2,862,747	3,805,597	5,361,264
Capital Ratios:				
Regulatory capital as a percentage Of risk-weighted assets	10.33%	8.93%	13.76%	11.19%
Ratio of risk-weighted assets to regulatory capital (1)	9.68	11.19	7.27	8.94

- (1) Credicorp currently is not required by the SBS to prepare these calculations on a consolidated basis. Law 26702, however, requires that such calculations be made on a consolidated basis, and such requirement will come into effect upon the issuance of implementing regulations by the SBS. On an unconsolidated basis, BCP's regulatory capital was US\$400.8 million and its risk-weighted assets were US\$4,125.9 million as of December 31, 1996, yielding a ratio of 10.30 to 1.0. ASB, which determines regulatory capital and risk-weighted assets in accordance with the Basel Accord, had a risk-weighted assets to regulatory capital ratio of 2.37 to 1.0.

Average shareholders' equity as a percentage of average total assets declined from 10.0% in 1994 to 9.4% in 1995, and increased to 10.6% in 1996.

Reconciliation of Differences Between IAS and Peruvian GAAP

The Credicorp Consolidated Financial Statements have been prepared in accordance with IAS, which differs in certain significant respects from U.S. GAAP. The principal differences between IAS and U.S. GAAP, insofar as they relate to Credicorp, is the treatment of the valuation of securities. Credicorp believes that there is no significant difference between the amounts of the loan loss provisions taken under IAS and the provisions that would be required under U.S. GAAP. Net income for the year ended December 31, 1996 was US\$116.1 million under IAS compared to US\$128.9 million under U.S. GAAP. Net income for the year ended December 31, 1995 was US\$88.1 million under IAS compared to US\$85.1 million under U.S. GAAP. Net income for the year ended December 31, 1994 was US\$46.7 million under IAS compared to US\$48.0 million under U.S. GAAP. Shareholders' equity under IAS was US\$664.0 million and US\$572.0 million at December 31, 1996 and 1995, respectively, compared to US\$666.0 million and US\$566.1 million, respectively, under U.S. GAAP. See Note 18 to the Credicorp Consolidated Financial Statements for a discussion of the principal differences between IAS and U.S. GAAP, insofar as they relate to Credicorp.

(b) Pro Forma Discussion and Analysis

To facilitate a meaningful year-to-year comparison of the results of operations of Credicorp, the following supplemental unaudited pro forma financial information for 1995 (the "Pro Forma Supplemental Financial Information") and corresponding discussion and analysis have been prepared. The Pro Forma Supplemental Financial Information for 1995 is presented as if the Exchange Offer and the other transactions requiring pro forma adjustments had occurred on, and as if Credicorp had been in existence since, January 1, 1995. Credicorp's pro forma balance sheet data at December 31, 1995 were not prepared since they would show no significant differences with actual financial statements.

The Pro Forma Supplemental Financial Information does not necessarily indicate the results of operations and financial position of Credicorp as they may be in the future or as they might have been had the Exchange Offer been consummated at the beginning of the period or at the date shown. The Pro Forma Supplemental Financial Information should be read in conjunction with the historical information presented above under “ — (a) Historical Discussion and Analysis” and the Credicorp Consolidated Financial Statements and related notes included elsewhere in this report.

INCOME STATEMENT DATA:	As of and for the years ended December 31,	
	1995	1996
	<i>(U.S. Dollars in thousands)</i>	
Net interest income.....	US\$261,732	US\$318,946
Provision for loan losses.....	29,653	57,835
Net interest income after provisions	232,079	261,111
Other income	235,364	276,128
Net premiums earned.....	64,749	78,639
Net premiums earned.....	261,670	315,392
Operating expenses.....	62,915	65,944
Claims on insurance activities.....		
Income before result of exposure to inflation, translation	142,858	155,903
result, income tax and minority interest	4,667	15,804
Result from exposure to inflation and translation result	(32,056)	(42,564)
Income tax.....	(11,255)	(12,994)
Minority interest	104,214	116,149
Net income.....		
BALANCE SHEET DATA:		
Total assets.....	5,096,469	6,247,457
Total loans.....	3,040,169	3,850,716
Reserve for possible loan losses	(119,609)	(160,601)
Total liabilities	4,524,428	5,583,448
Total deposits.....	3,667,516	4,435,087
Shareholders' equity.....	US\$572,041	US\$664,009

Credicorp believes that pro forma results of operations for 1995 do not reflect any material trends not reflected in the historical results of operations and financial conditions presented above. Credicorp's net income would have increased 11.5% from 1995 to 1996 on a pro forma basis compared with 31.9% in the same period on a historical basis. Net interest income would have increased 21.9% from 1995 to 1996 on a pro forma basis compared with 33.4% in the same period on a historical basis. Net premiums would have increased 21.5% from 1995 to 1996 on a pro forma basis compared with 572.8% in the same period on a historical basis. Operating expense would have increased 20.5% from 1995 to 1996 on a pro forma basis compared with 29.5% in the same period on a historical basis.

(c) Selected Statistical Information

The following tables present certain selected statistical information and ratios for Credicorp for the periods indicated. The selected statistical information should be read in conjunction with the information included under “ — (a) Historical Discussion and Analysis” above and the Credicorp Consolidated Financial Statements and the notes thereto included elsewhere herein. *The statistical information and discussion and analysis presented below for 1996 and 1995 reflect the financial position of BCP, ASHC and PPS as of December 31, 1996 and December 31, 1995, and the results of operations of BCP, PPS and ASHC for 1996 and of BCP for 1995 and of PPS and ASHC for the last two months of 1995. On the other hand, the statistical information and discussion and analysis presented below for 1994 reflect the financial position and results of BCP but not of PPS or ASHC, and, as a result, is not directly comparable with that for 1995 and 1996.*

Average Balance Sheets and Income from Interest-Earning Assets

The tables below set forth selected statistical information based on Credicorp's average balance sheets prepared on a consolidated basis. Except as otherwise indicated, average balances, when used, have been classified by currency (Nuevos Soles or U.S. Dollars), rather than by the domestic or international nature of the balance, because substantially all of the relevant transactions of Credicorp were effected in Peru or on behalf of Peruvian residents and in Nuevos Soles or U.S. Dollars. In addition, except as noted, such average balances are based on the quarterly ending balances in each year, with any such quarter-end balance denominated in Nuevos Soles having been translated into U.S. Dollars based on the applicable SBS Exchange Rate as of the date of such balance. Furthermore, the original values of the quarter-end balances corresponding to the years 1993 and 1994 were restated in constant Nuevos Soles using December 31, 1994 as the benchmark date, and translated into U.S. Dollars using the applicable exchange rate at such date according to IAS. Nominal average interest rates have, in certain cases, been restated as real average interest rates using the formula described below. Management believes that adjusting average balances and average interest rates for inflation in this manner provides more meaningful information for investors than unadjusted average balances and rates and does not believe that the quarterly averages present trends materially different from those that would be presented by daily averages.

Real Average Interest Rates

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

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

Where:

R(s) = real average interest rate on Nuevo Sol-denominated assets and liabilities for the period.

R(d) = real average interest rate on U.S. Dollar-denominated assets and liabilities for the period.

N(s) = nominal average interest rate on Nuevo Sol-denominated assets and liabilities for the period.

N(d) = nominal average interest rate on U.S. Dollar-denominated assets and liabilities for the period.

D = devaluation rate of the Nuevo Sol relative to the U.S. Dollar for the period.

I = inflation rate in Peru for the period (based on the Peruvian wholesale inflation rate).

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

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

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

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

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

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

The following tables show quarterly average balances for all of Credicorp's assets and liabilities, interest earned and paid amounts, and nominal rates and real rates for Credicorp's interest-earning assets and interest-bearing liabilities, all for the years ended December 31, 1994, 1995 and 1996. Loan fees, which are not material, are included in the tables as interest earned.

Average Balance Sheets
Assets, Interest, and Average Interest Rates

Assets: (1)	Year ended December 31,											
	1994				1995				1996			
	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate
<i>Interest-earning assets:</i>												
<i>(U.S. Dollars in thousands, except percentages)</i>												
Deposits in Central Bank												
Nuevos Soles	US\$ 4,957	US\$ 31	-12.79%	0.63%	US\$ 3,733	US\$ 28	-8.60%	0.75%	US\$ 3,397	US\$ —	-10.59%	0.00%
U.S. Dollars	590,737	25,654	-8.12	4.34	772,671	38,038	1.12	4.92	880,614	41,677	4.59	4.73
Total	595,694	25,685	-8.16	4.31	776,404	38,066	1.07	4.90	884,011	41,677	4.53	4.71
Deposits in other banks												
Nuevos Soles	8,360	2,030	7.72	24.28	3,686	2,105	42.52	57.10	6,299	810	0.91	12.86
U.S. Dollars	141,060	6,378	-7.96	4.52	91,262	9,161	6.05	10.04	182,625	24,188	13.09	13.24
Total	149,420	8,408	-7.08	5.63	94,948	11,266	7.46	11.86	188,925	24,998	12.68	13.23
Investment securities												
Nuevos Soles	24,169	2,058	-5.95	8.52	76,320	6,130	-1.99	8.03	27,104	8,635	17.90	31.86
U.S. Dollars	47,845	3,521	-5.46	7.36	86,318	5,103	2.07	5.91	166,357	13,541	7.99	8.14
Total	72,014	5,579	-5.63	7.75	162,637	11,233	0.16	6.91	193,461	22,176	9.38	11.46
Total Loans (2)												
Nuevos Soles	240,203	89,057	18.80	37.08	373,257	114,077	18.45	30.56	535,785	152,985	14.94	28.55
U.S. Dollars	1,411,428	185,376	-0.38	13.13	1,990,361	272,412	9.56	13.69	2,950,970	409,639	13.73	13.88
Total	1,651,631	274,433	2.41	16.62	2,363,618	386,489	10.96	16.35	3,486,755	562,624	13.91	16.14
Total dividend-earning assets (3)												
Nuevos Soles	14,477	778	-8.67	5.37%	7,078	920	2.51	13.00	146,607	1,438	-9.71	0.98
U.S. Dollars	12,733	287	-9.96	2.25	14,280	1,706	7.88	11.95	67,074	1,650	2.32	2.46
Total	27,210	1,065	-9.27	3.91	21,358	2,626	6.10	12.30	213,681	3,088	-5.93	1.45
Total interest-earning assets												
Nuevos Soles	292,166	93,954	14.54	32.16	464,074	123,260	14.81	26.56	719,191	163,868	9.79	22.79
U.S. Dollars	2,203,803	221,216	-3.10	10.04	2,954,892	326,420	7.02	11.05	4,247,641	490,695	11.40	11.55
Total	2,495,969	315,170	-1.04	12.63	3,418,966	449,680	8.08	13.15	4,966,832	654,563	11.17	13.18
Noninterest-earning assets:												
Cash and due from banks												
Nuevos Soles	50,904				70,728				94,280			
U.S. Dollars	100,635				115,515				186,668			
Total	151,539				186,243				280,948			
Reserves for loan losses												
Nuevos Soles	(10,049)				(12,453)				(15,422)			
U.S. Dollars	(94,609)				(100,279)				(121,175)			
Total	(104,658)				(112,732)				(136,597)			
Premises and equipment												
Nuevos Soles	179,173				156,745				223,088			
U.S. Dollars	8,128				7,512				7,459			
Total	187,301				164,257				230,547			
Other non interest-earning assets												
Nuevos Soles	105,012				162,506				222,222			
U.S. Dollars	51,929				77,596				172,324			

Assets: (1)	Year ended December 31,											
		1994			1995				1996			
	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate	Average Balance	Interest Earned	Real avg. Rate	Nominal avg. Rate
Total.....	156,941				240,102				394,546			
Total non interest-earning assets												
Nuevos Soles	325,040				377,526				524,168			
U.S. Dollars	66,083				100,344				245,276			
Total.....	391,123				477,870				769,443			
Total average assets												
Nuevos Soles	617,206	93,954	-0.14	15.22	841,600	123,260	4.01	14.65	1,243,359	163,868	1.20	13.18
U.S. Dollars	2,269,886	221,216	-3.36	9.75	3,055,236	326,420	6.67	10.68	4,492,916	490,695	10.77	10.92
Total.....	2,887,092	315,170	-2.67	10.92	3,896,836	449,680	6.09	11.54	5,736,275	654,563	8.70	11.41

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

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

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

Average Balance Sheets
Assets, Interest, and Average Interest Rates

	Year ended December 31,											
	1994				1995				1996			
LIABILITIES: (1)	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate
<i>Interest-bearing liabilities:</i>					<i>(U.S. Dollars in thousands, except percentages)</i>							
Demand deposits												
Nuevos Soles	US\$ 145,101	US\$ 718	-12.90%	0.49%	US\$ 182,694	US\$ 2,072	-8.25%	1.13%	US\$ 250,107	US\$ 8,971	-7.38%	3.59%
U.S. Dollars	291,446	4,671	-10.53	1.60	330,248	4,560	-2.30	1.38	398,147	8,281	1.94	2.08
Total	436,547	5,389	-11.32	1.23	512,942	6,632	-4.42	1.29	648,254	17,252	-1.65	2.66
Savings Deposits												
Nuevos Soles (2)	191,128	32,199	1.05	16.59	266,979	28,283	0.33	10.59	305,883	29,398	-1.99	9.61
U.S. Dollars	915,144	37,837	-8.30	4.13	1,068,812	49,103	0.80	4.59	1,221,948	49,899	3.94	4.08
Total	1,109,272	70,036	-6.67	6.31	1,335,791	77,386	0.70	5.79	1,527,831	79,297	2.75	5.19
Time deposits												
Nuevos Soles	58,585	12,428	5.06	21.21	109,529	16,010	3.98	14.62	161,075	24,291	2.90	15.08
U.S. Dollars	718,560	46,433	-6.25	6.46	1,080,600	69,588	2.58	6.44	1,754,423	143,693	8.04	8.19
Total	777,145	58,861	-5.40	7.57	1,190,129	85,598	2.71	7.19	1,915,499	167,984	7.61	8.77
Due to Banks and correspondents												
Nuevos Soles	2,316	520	6.13	22.45	11,863	1,092	-0.93	9.20	10,973	1,844	4.44	16.80
U.S. Dollars	117,865	17,605	1.21	14.94	221,466	39,826	13.70	17.98	485,395	69,240	14.11	14.26
Total	120,181	18,125	1.30	15.08	233,329	40,918	12.96	17.54	496,368	71,084	13.90	14.32
Total interest-bearing liabilities												
Nuevos Soles	400,130	45,865	-3.40	11.46	571,065	47,457	-1.74	8.31	728,039	64,504	-2.66	8.86
U.S. Dollars	2,043,015	106,546	-7.35	5.22	2,701,126	163,077	2.19	6.04	3,859,913	271,113	6.88	7.02
Total	2,443,145	152,411	-6.70	6.24	3,272,191	210,534	1.50	6.43	4,587,952	335,617	5.36	7.32
<i>Non interest-bearing liabilities and Stockholders' equity:</i>												
Other liabilities												
Nuevos Soles	66,592				113,907				216,874			
U.S. Dollars	87,911				146,023				323,146			
Total	154,503				259,930				540,020			
Stockholders' equity												
Nuevos Soles	280,368				356,299				394,247			
U.S. Dollars	9,076				8,416				214,056			
Total	289,444				364,715				608,303			
Total non interest-bearing liabilities and stockholders' equity												
Nuevos Soles	346,960				470,206				611,121			
U.S. Dollars	96,987				154,440				537,202			
Total	443,947				624,646				1,148,323			
Total average liabilities and stockholders' equity												
Nuevos Soles	747,090	45,865	-8.01	6.14	1,041,271	47,457	-5.15	4.56	1,339,160	64,504	-6.28	4.82
U.S. Dollars	2,140,002	106,546	-7.56	4.98	2,855,565	163,077	1.87	5.71	4,397,116	271,113	6.02	6.17

	Year ended December 31,											
	1994				1995				1996			
LIABILITIES: (1)	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate	Average Balance	Interest Paid	Real Average Rate	Nominal Average Rate
Total.....	2,887,092	152,411	-7.68	5.28	3,896,836	210,534	0.00	5.40	5,736,275	335,617	3.15	5.85

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

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

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

The following table allocates, by currency, changes in Credicorp's consolidated net interest income between changes in volume and changes in rates for 1995 compared to 1994 and for 1996 compared to 1995. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest-earning assets and average interest-bearing liabilities. Variances caused by changes in both volume and rate have been allocated to volume.

	1995/1994			1996/1995		
	Increase/(Decrease) due to changes in:			Increase/(Decrease) due to changes in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(U.S. Dollars in thousands)					
Interest income:						
Interest-earning deposits in Central Bank						
Nuevos Soles	US\$ (8)	5	(3)	US\$ (3)	(25)	(28)
U.S. Dollars	7,901	4,483	12,384	5,314	(1,675)	3,639
Total	7,893	4,488	12,381	5,276	(1,664)	3,611
Deposits in other banks						
Nuevos Soles	(1,135)	1,210	75	1,492	(2,787)	(1,294)
U.S. Dollars	(2,252)	5,035	2,783	9,171	5,856	15,027
Total	(3,387)	6,245	2,858	11,150	2,582	13,732
Investment securities						
Nuevos Soles	4,441	(369)	4,072	(3,953)	6,458	2,505
U.S. Dollars	2,831	(1,249)	1,582	4,732	3,706	8,438
Total	7,272	(1,618)	5,654	2,129	8,814	10,943
Total loans						
Nuevos Soles	49,331	(24,311)	25,020	49,672	(10,764)	38,908
U.S. Dollars	76,036	11,000	87,036	131,475	5,752	137,227
Total	125,367	(13,311)	112,056	183,651	(7,516)	176,135
Total dividend-earning assets						
Nuevos Soles	(398)	540	142	18,140	(17,622)	518
U.S. Dollars	35	1,384	1,419	6,307	(6,363)	(56)
Total	(363)	1,924	1,561	23,648	(23,186)	462
Total interest-earning assets						
Nuevos Soles	52,231	(22,925)	29,306	67,760	(27,151)	40,609
U.S. Dollars	84,551	20,653	105,204	142,807	21,468	164,275
Total	136,782	(2,272)	134,510	203,583	1,300	204,883
Interest Expense:						
Demand deposits						
Nuevos Soles	186	1,168	1,354	764	6,135	6,900
U.S. Dollars	621	(732)	(111)	938	2,783	3,720
Total	807	436	1,243	1,750	8,871	10,620
Savings deposits						
Nuevos Soles	12,083	(15,999)	(3,916)	4,121	(3,007)	1,115
U.S. Dollars	6,354	4,912	11,266	7,035	(6,239)	797
Total	18,437	(11,087)	7,350	11,125	(9,214)	1,911
Time deposits						
Nuevos Soles	10,807	(7,225)	3,582	7,535	746	8,281
U.S. Dollars	23,395	(240)	23,155	43,393	30,712	74,105
Total	34,202	(7,465)	26,737	52,171	30,215	82,386
Due to Banks and Correspondents						
Nuevos Soles	2,144	(1,572)	572	(82)	834	752
U.S. Dollars	15,474	6,747	22,221	47,462	(18,048)	29,414
Total	17,618	5,175	22,793	46,128	(15,962)	30,166
Total interest-bearing liabilities						
Nuevos Soles	25,220	(23,628)	1,592	13,045	4,002	17,047
U.S. Dollars	45,844	10,687	56,531	69,960	38,076	108,036
Total	71,064	(12,941)	58,123	84,656	40,427	125,083

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

Interest-Earning Assets, Net Interest Margin and Yield Spread

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

	Year ended December 31,		
	1994	1995	1996
	<i>(U.S. Dollars in thousands, except percentages)</i>		
Average interest-earning assets			
Nuevos Soles	US\$ 292,166	US\$ 464,074	US\$ 719,191
U.S. Dollars	2,203,803	2,954,892	4,247,641
Total.....	2,495,969	3,418,966	4,966,832
Net interest income			
Nuevos Soles	48,089	75,803	99,364
U.S. Dollars	114,670	163,343	219,582
Total.....	162,759	239,146	318,946
Gross yield (1)			
Nuevos Soles	32.16%	26.56%	22.79%
U.S. Dollars	10.04%	11.05%	11.55%
Weighted-average rate	12.63%	13.15%	13.18%
Net interest margin (2)			
Nuevos Soles	16.46%	16.33%	13.82%
U.S. Dollars	5.20%	5.53%	5.17%
Weighted-average rate	6.52%	6.99%	6.42%
Yield spread (3)			
Nuevos Soles	20.70%	18.25%	13.93%
U.S. Dollars	4.82%	5.01%	4.53%
Weighted-average rate	6.39%	6.72%	5.86%

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

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

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

Average shareholders' equity as a percentage of average total assets was 10.0%, 9.4% and 10.6% in 1994, 1995 and 1996, respectively.

Interest-Earning Deposits With Other Banks

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

	At December 31,		
	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>		

	At December 31,		
	1994	1995	1996
	(U.S. Dollars in thousands)		
Nuevo Sol-denominated:			
Central Bank (1).....	US\$ 12,216	US\$ 9,278	US\$ 0
Commercial banks	1,387	2,785	349
Total Nuevo Sol-denominated.....	US\$ 13,603	US\$ 12,063	US\$ 349
Foreign currency-denominated:			
Central Bank (U.S. Dollars).....	US\$ 740,572	US\$827,718	US\$ 950,849
U.S. Dollars, other.....	62,823	29,646	184,363
Other.....	4,099	6,963	1,605
Total foreign currency-denominated.....	US\$807,494	US\$864,327	US\$1,136,817
Total	US\$821,097	US\$876,390	US\$1,137,166

(1) These deposits do not earn interest; however, the balance of 1994 includes a special deposit of US\$12.2 million that earns interest at market rates.

Investment Portfolio

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

	At December 31,		
	1994	1995	1996
	(U.S. Dollars in thousands)		
Nuevo Sol-denominated:			
Peruvian government bonds	US\$ 1	US\$ 0	US\$ 0
Equity securities.....	19,339	150,557	128,577
Bonds	682	1,775	16,378
Peruvian Central Bank certificate notes	27,397	5,965	4,994
Total Nuevo Sol-denominated	US\$47,419	US\$158,297	US\$149,949
Dollar-denominated:			
Equity securities.....	US\$13,429	US\$ 39,049	US\$102,079
Bonds	20,807	82,356	123,674
Investment in Peruvian debt	7,121	18,202	19,506
Other Investment...	6,560	55,227	66,155
Total Dollar-denominated	US\$47,917	US\$194,834	US\$311,414
Total securities holdings:	US\$95,336	US\$353,131	US\$461,363
Allowance for unrealized losses (1)	(208)	(1,270)	(6)
Total net securities holdings	US\$95,128	US\$351,861	US\$461,357

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

The significant increase in total net securities holdings in 1995 is the result of the inclusion of the investment portfolios of ASHC and PPS in the December 31, 1995 balances and not in the preceding balances. The weighted-average yield on Credicorp's Nuevo Sol-denominated, interest and dividend-earning investment portfolio was 7.3% in 1994, 8.5% in 1995, and 5.8% in 1996. The weighted-average yield on Credicorp's U.S. Dollar-denominated portfolio was 6.3% in 1994, 6.8% in 1995, and 6.5% in 1996. The total weighted-average yield of Credicorp's portfolio was 6.7% in 1994, 7.5% in 1995, and 6.2% in 1996.

The following table shows the maturities of Credicorp's investment securities by type at December 31, 1996:

Maturing

	Within 1 year	After 1 year but within 5 years	After 5 year but within 10 years	After 10 years	Total
<i>(U.S. Dollars in thousands, except percentages)</i>					
Nuevo Sol-denominated:					
Equity securities (1)	US\$11,061	US\$ 0	US\$ 0	US\$117,516	US\$128,577
Bonds and debentures	6,873	0	0	9,505	16,378
Peruvian Central Bank certificate notes	4,994	0	0	0	4,994
Total Nuevo Sol-denominated..	US\$22,929	US\$ 0	US\$ 0	US\$127,021	US\$149,949
Dollar-denominated:					
Equity securities	US\$22,461	US\$62,304	US\$ 0	US\$17,314	US\$102,079
Bonds.....	34,718	0	0	67,498	102,216
Investment in Peruvian debt..	4,571	0	0	14,935	19,506
Other investments	51,600	3,843	0	32,170	87,613
Total Dollar-denominated.....	113,350	66,147	0	131,917	311,414
Total securities holdings:	US\$136,278	US\$66,147	US\$ 0	US\$258,938	US\$461,363
Allowance for unrealized losses (2)	(6)	0	0	0	(6)
Total net securities holdings	US\$136,272	US\$66,147	US\$ 0	US\$258,938	US\$461,357
Weighted average yield.....					6.21%

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

Credicorp has established a reserve to be charged in the event that the value of any security held in Credicorp's portfolio falls below historical cost. If the price of any security in Credicorp's portfolio falls below its acquisition price, SBS guidelines require Credicorp to increase the reserve in the amount of the difference between the acquisition cost and the current market value. The provisions taken to establish this reserve are charged to Credicorp's income. At December 31, 1996, this reserve stood at approximately US\$6,000.

Loan Portfolio

Loans by Type of Loan

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

	1992	1993	At December 31,		
			1994	1995	1996
<i>(U.S. Dollars in thousands)</i>					
Loans (1)	US\$491,012	US\$ 580,589	US\$ 911,527	US\$1,685,508	US\$2,272,207
Discounted Notes	246,582	440,307	619,222	766,775	783,143
Advances and overdrafts	103,673	125,762	186,331	259,981	359,779
Leasing transactions (1)	53,258	43,869	64,456	95,978	176,726
Factoring	4,418	27,229	91,650	115,012	96,219
Refinanced loans.....	0	44,276	37,730	43,389	38,161
Past due loans (2).....	61,558	76,278	68,323	73,526	124,481
Total loans:	US\$960,501	US\$1,338,310	US\$ 1,979,239	US\$3,040,169	US\$ 3,850,716
Total past due loans amounts	61,558	76,278	68,323	73,526	124,481
Total performing loans	US\$898,943	US\$1,262,032	US\$1,910,916	US\$2,966,643	US\$3,726,235

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

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

Pursuant to the guidelines of the SBS, loans are categorized as follows:

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

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

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

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

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

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

Loans by Economic Activity

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

	At December 31,					
	1992		1993		1994	
	(U.S. Dollars in thousands, except percentages)					
<u>Economy Activity</u>	Amount	%Total	Amount	%Total	Amount	%Total
Manufacturing	US\$308,819	32.15 %	US\$495,498	37.02%	US\$ 640,676	32.37%
Commerce	275,406	28.67	340,469	25.44	556,922	28.14
Agriculture	37,385	3.89	45,205	3.38	123,975	6.26
Mining	26,104	2.72	48,103	3.59	84,210	4.25
Construction	5,065	0.53	19,714	1.47	34,399	1.74
Financial Services	14,761	1.54	21,081	1.58	38,589	1.95
Communication, Storage and Transportation	46,039	4.79	103,921	7.77	118,480	5.99
Realty Businesses and Leasing Services (1) ...	0	0.00	43,883	3.28	105,512	5.33
Electricity, gas and water	10,423	1.09	6,741	0.50	5,668	0.29
Education, Health and other Services	4,028	0.42	7,102	0.53	7,890	0.40
Consumer Loans (2)	78,787	8.20	110,104	8.23	193,514	9.78
Others (3)	153,684	16.00	96,489	7.21	69,404	3.50
Total	<u>US\$960,501</u>	<u>100.00 %</u>	<u>US\$1,338,310</u>	<u>100.00%</u>	<u>US\$1,979,239</u>	<u>100.00%</u>

	At December 31,			
	1995		1996	
	(U.S. Dollars in thousands, except percentages)			
<u>Economy Activity</u>	<u>Amount</u>	<u>%Total</u>	<u>Amount</u>	<u>%Total</u>
Manufacturing	US\$1,018,316	33.50%	US\$1,149,970	29.86%
Commerce.....	629,526	20.71	884,319	22.97
Agriculture	185,658	6.11	263,674	6.85

Mining	152,480	5.02	269,416	7.00
Construction	79,221	2.61	92,662	2.41
Financial Services	101,090	3.33	153,850	4.00
Communication, Storage and Transportation	168,630	5.55	249,246	6.47
Realty Businesses and Leasing Services (1)	109,165	3.59	175,908	4.57
Electricity, gas and water.....	16,892	0.56	30,407	0.79
Education, Health and other Services	109,057	3.59	42,561	1.11
Consumer Loans (2)	334,518	11.00	428,970	11.14
Others (3)	135,616	4.43	109,733	2.85
Total	<u>US\$3,040,169</u>	<u>100.00%</u>	<u>US\$3,850,716</u>	<u>100.00%</u>

(1) Before 1993, loans in this category were included in other categories.

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

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

As of December 31, 1996, 77% of the loan portfolio was concentrated in Lima and 94% was concentrated in Peru. An additional 5% of the loan portfolio was concentrated in Bolivia.

Concentrations of Loan Portfolio and Lending Limits

Credicorp's loans and other contingent credits to the 20 customers (considered as economic groups) to which it had the largest exposure as of December 31, 1996 were US\$804.6 million at that date, of which US\$544.4 million were outstanding loans representing 14.1% of the total loan portfolio. See "Item 1. Description of Business — (l) Supervision and Regulation — BCP — Lending Activities" for the definition of economic group in accordance with SBS regulations. Total loans and other contingent credits outstanding and available to these customers ranged from US\$87.3 million to US\$20.4 million, including two customers each having over US\$77.1 million. The total loans and other contingent credits outstanding and available to Credicorp's 20 largest customers were ranked in the following risk categories as of December 31, 1996: Class A (normal) — 86.3%; Class B (potential problems) — 12.8%; Class C (substandard) — 0.9%; Class D (doubtful) — 0%; and Class E (loss) — 0%. See " — Classification of the Loan Portfolio."

BCP's loans to a single borrower are subject to lending limits imposed by Law 26702. See "Item 1. Description of Business — (l) Supervision and Regulation." The applicable Law 26702 lending limits depend on the nature of the borrower involved and the type of collateral received. The sum of loans to and deposits in either another Peruvian universal bank or Peruvian financial institution, plus any guarantees of third party performance received by BCP from such institution, may not exceed 30% of BCP's regulatory capital, as defined by the SBS. The sum of loans to and deposits in non-Peruvian financial institutions, plus any guarantees of third party performance received by BCP from such institutions, are limited to either 5%, 10% or 30% of BCP's regulatory capital, depending upon the governmental supervision to which the institution is subject and upon whether it is recognized by the Central Bank as an international bank of prime credit quality. The limits on lending to non-Peruvian financial institutions increase to 50% of BCP's regulatory capital if the amount by which such loans exceed the 5%, 10% or 30% limits is backed by certain letters of credit.

The limit on loans to individuals not resident in Peru or companies that are not financial institutions are 5% of BCP's regulatory capital; however, this limit increases to 10% if the additional 5% is guaranteed by a mortgage or certain publicly-traded securities. The limit rises to 30% if the additional amount is guaranteed by certain banks or by cash deposits in BCP. Lending on an unsecured basis to individuals or companies resident in Peru that are not financial institutions is limited to 10% of BCP's regulatory capital. This limit rises to 15% if the additional 5% is guaranteed by a mortgage, certain securities, equipment or other collateral and to 20% if the additional amount is either backed by certain debt instruments guaranteed by other local banks, or a foreign bank determined by the Central Bank of prime credit quality, or by other highly liquid securities at market value. Finally, the single borrower

lending limit for loans backed by a cash deposit at BCP or by debt obligations of the Central Bank, is 30% of BCP's regulatory capital. With an unconsolidated regulatory capital of S/1,0034.0 million (US\$400.8 million) at December 31, 1996, BCP's legal lending limits vary from S/51.7 million (US\$20.0 million) to S/516.9 million (US\$200.4 million). Credicorp's consolidated lending limits, based on its regulatory capital on a consolidated basis of US\$599.7 million at December 31, 1996, would range from US\$30.0 million to US\$299.8 million. Management believes that as of December 31, 1996, BCP was in compliance with all Law 26702 lending limits.

As of December 31, 1996, Credicorp complied with the applicable legal lending limits in each of the other jurisdictions where it operates. In addition to these regulatory limits, Credicorp has established an internal limit of 15% of BCP's consolidated equity plus generic reserves (or approximately US\$70 million at December 31, 1996) as the maximum amount of loans and other contingent credits that Credicorp, on a consolidated basis, may extend to any customer. Such limit is calculated quarterly based on Credicorp's consolidated equity plus generic reserves at quarter-end. A limited number of exceptions to Credicorp's internal limits have been authorized by the Board of Directors from time to time, considering the credit quality of the borrower, the term of the loan and the amount and quality of collateral taken by Credicorp. Credicorp may, in appropriate and limited circumstances, increase or choose to exceed this limit in the future.

As of December 31, 1996, there were two exceptions to Credicorp's internal lending limit, both of which involve loans to some of Peru's largest business groups. The outstanding credit facilities to the first of these groups, the Backus group, which includes the two largest brewing companies in Peru, totals US\$87.3 million (of which US\$79.4 million represented outstanding loans). These loans represent 2.1% of Credicorp's total loan portfolio. Mr. Carlos Bentín, the General Manager of Backus, is a member of the Board of Directors of BCP. The second of these groups, the Romero group, had loans and other contingent credits from Credicorp of US\$77.1 million (of which US\$64.3 million were outstanding loans, representing 1.7% of the total loan portfolio). Mr. Dionisio Romero, the head of the Romero group, is Chairman of the Board and Chief Executive Officer of Credicorp. See "Item 4. Control of Registrant", "Item 10. Directors and Officers of Registrant" and "Item 13. Interest of Management in Certain Transactions."

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

Loan Portfolio Denomination

The following table presents Credicorp's Nuevo Sol- and U.S. Dollar-denominated loan portfolio at the dates indicated. All of Credicorp's loans are denominated either in Nuevos Soles or U.S. Dollars.

At December 31,						
	1992	1993			1994	
Total loan portfolio:	(U.S. Dollars in thousands, except percentages)					
Nuevo Sol-denominated	US\$112,588	11.72%	US\$ 173,278	12.95%	US\$ 327,496	16.55%
U.S. Dollar-denominated	847,913	88.28	1,165,032	87.05	1,651,743	83.45
Total loans...	960,501	100.00%	US\$1,338,310	100.00%	US\$1,979,239	100.00%

At December 31,						
	1994	1995				
Total loan portfolio:		<i>(U.S. Dollars in thousands, except percentages)</i>				

Nuevo Sol-denominated	US\$ 459,808	15.12%	US\$ 557,903	14.49%
U.S. Dollar-denominated	2,580,361	84.88	3,292,813	85.51
Total loans.....	US\$3,040,169	100.00%	US\$3,850,716	100.00%

Maturity Composition of the Performing Loan Portfolio

The following table sets forth an analysis of Credicorp's performing loan portfolio at December 31, 1996, by type and by the time remaining to maturity. Loans are stated before deduction of the reserves for loan losses.

	Amount at December 31, 1996	Maturing Within 3 months	After 3 months but within 12 months	After 1 year
<i>(U.S. Dollars in thousands, except percentages)</i>				
Loans	US\$2,272,207	US\$ 1,345,957	US\$520,892	US\$405,358
Discounted notes	783,143	703,302	69,423	10,418
Advances and overdrafts	359,779	359,779	0	0
Leasing transactions (1).....	176,726	5,069	15,307	156,349
Factoring.....	96,219	72,797	11,609	11,813
Refinanced loans.....	38,161	13,026	6,225	18,910
Total	US \$3,726,235	US\$ 2,499,930	US\$623,456	US\$602,848
Percentage of total performing loan portfolio.....	100.00%	67.09%	16.73%	16.18%

Classification of the Loan Portfolio

Credicorp classifies BCP's loan portfolio (which includes the loan portfolio of BCB) in accordance with SBS regulations and in the future intends to classify the loan portfolio of ASHC in accordance with SBS regulations also. According to SBS regulations banks must classify all loans and other credits into one of three categories based upon the purpose of the loan; these categories are commercial, consumer and residential mortgage. Commercial loans are generally those that finance the production and sale of goods and services, including commercial leases, as well as credit card debt on cards held by business entities. Small business loans are also included in this category. Consumer loans are generally loans granted to individuals, including credit card transactions, overdrafts on personal demand deposit accounts and leases financing personal consumer goods. Residential mortgage loans are all loans to individuals for the purchase, construction, remodeling, subdivision or improvement of the individual's own home, in each case backed by a mortgage. Loans to directors and employees of a company are also considered residential mortgage loans. All other mortgage-backed loans are considered commercial loans. The classification of the loan determines the amount the bank is required to reserve should the borrower fail to make payments as they come due.

Regulations promulgated by the SBS also require Peruvian banks to classify all loans into one of five other categories depending upon the degree of risk of nonpayment of each loan. Credicorp reviews its loan portfolio on a continuing basis, and the SBS reviews the portfolio as it deems necessary or prudent. In classifying its loans based upon risk of nonpayment, Credicorp, in compliance with SBS guidelines, assesses the following factors: the payment history of the particular loans, the history of Credicorp's dealings with the borrower, management and operating history of the borrower, status of any collateral or guarantee, the borrower's financial statements, general risk of the sector in which the borrower operates, and other relevant factors. The classification of the loan determines the amount of the loan loss provision required to be set aside. Law 26702 further requires banks to establish a generic loan loss provision of up to 1% of the bank's loan and credit portfolio classified as A (normal). The final percentage is to be determined by the SBS, which has yet to issue regulations. Current regulations require that loans or credits classified as B require a general reserve of either 1% or 3% of the total loan or credit amount. Loans or credits

classified as C, D or E require a specific reserve against that portion of the loan or credit which is unsecured (the “reservable amount”).

Under Law 26702, collateral is not subtracted from the amount of the loan or credit outstanding to determine the amount of the loan or credit to be reserved against. Instead, a lower (better) risk classification can be taken on the loan or credit depending on the quality of the collateral and the percentage of the loan or credit that is secured. As regulations concerning final reserve percentages are pending from the SBS, Credicorp cannot determine the amount that would have been required to be reserved in 1996 under Law 26702. However, based on draft regulations released by the SBS for comment, which provide for: (i) the application of a 1% generic reserve on direct loans classified in the A (Normal) category, (ii) a 5%, 25%, 60% and 100% reserve requirement on loans and credits in risk categories B, C, D and E, respectively, and (iii) not allowing collateral to be subtracted from loans and credits, Credicorp would have been required to take an additional provision of approximately US\$42 million during 1996. Such amount does not take into consideration the 36 month phase-in period for implementation of the provision amounts proposed under the draft regulations. There can be no assurance that the SBS will adopt the draft provisions as circulated.

Under current regulations, when a loan or credit classified as a C, D or E is secured, the amount of the loan or credit against which a reserve must be taken is calculated by subtracting the value of any collateral from the outstanding principal amount of the loan or credit. For the purpose of determining the reservable amount, collateral is valued according to SBS regulations which assign different percentages of appraised value depending on the type of asset used as security. For example, readily disposable goods are valued at 70% of their appraised value, real estate, machinery and equipment and ships at 50%. Personal guarantees are not considered collateral for this purpose. Any decline in the value of collateral may therefore affect the amount of reserves required to be maintained against such loan or credit facility. The regulations establish the following five categories:

Class “A”. Loans or credits in this category are known as “normal” credits. The debtors on commercial loans or credits that warrant this classification are those who have complied on a timely basis with their obligations and at the time of evaluation of the credit do not present any doubt with respect to the repayment of interest and principal on the loan on the agreed upon dates, and where Credicorp has no reason to believe that the status will change before the next evaluation. To place a loan or credit in Class A, a clear understanding of the use to be made of the funds and the origin of the cash flows to be used by the debtor to repay the loan or credit is required. Consumer and residential mortgage loans warrant Class A classification if payments are current. For loans or credits in this category, no specific or general reserves are required.

Class “B”. Loans or credits in this category are known as credits with “potential problems.” Debtors on commercial loans or credits included in this category are those that at the time of the evaluation of the credit demonstrate certain deficiencies which, if they are not corrected in a timely manner, imply risks with respect to the recovery of the loan. Certain common characteristics of loans or credits in the category include: a general lack of information required to analyze the credit; out-of-date financial information; temporary economic or financial imbalances on the part of the debtor which could effect its ability to repay the loan; market conditions that could affect the economic sector in which the debtor is active; material overdue debts or pending judicial collection actions initiated by other financial institutions; noncompliance with originally contracted conditions; conflicts of interest within the debtor company; labor problems; unfavorable credit history; noncompliance with internal policies of the debtor company; excessive reliance on one source of raw materials or one buyer of the debtor's products; and low inventory turnover ratios or large inventories that are subject to competitive challenges or technological obsolescence. For commercial loans or credits in this category, no specific provisions are required, but a general reserve of 1% of the total of such loans or credits outstanding is required. Consumer loans are categorized as Class B if payments are between ten and 30 days late; a 3% general reserve on the total of such loans outstanding is required. Residential mortgage loans become Class B when payments are between one and 30 days late; such loans require a 1% general reserve on the total of such loans outstanding.

Class “C”. Loans or credits in this category are known as “substandard” credits. Debtors on commercial

loans or credits whose loans or credits are placed in this category demonstrate serious financial weakness, often with operating profits or available income insufficient to cover financial obligations on agreed upon terms, with no reasonable short-term prospects for a strengthening of the debtor's financial capacity. Loans or credits demonstrating the same deficiencies that warrant classification as category B credits warrant classification as Class C credits if those deficiencies are such that if they are not corrected in the near term, they could impede the recovery of principal and interest on the loan on the originally agreed terms. This category includes all the refinanced credits. For an effective control, financial institutions should keep in order all the contracts for refinanced credits, with their clauses adequately defined and their repayment programs based on the payment capacity of their debtors and on the collateral provided. Commercial loans or credits included in this class require a specific provision of 25% of the reservable amount. If payments on a consumer loan are between 30 and 60 days late, such loans are classified as Class C; a 30% specific reserve is required on the unsecured portion of the total outstanding loan amount. Residential mortgage loans are classified as Class C when payments are between 30 and 120 days late; such loans require a 25% specific reserve on the unsecured portion of the total outstanding loan amount.

Class "D". Loans or credits included in this category are known as "doubtful" credits. Debtors on commercial loans or credits included in this classification present characteristics of actual credit risk that make doubtful the recovery of the loan. Although the loan recovery is doubtful, if there is a reasonable possibility that in the near future the credit-worthiness of the debtor might improve, a Class D categorization is appropriate. These credits are distinguished from Class E credits by the requirement that the debtor remain in operation, generate cash flow, and make payments on the loan, albeit at a rate less than its contractual obligations. Commercial loans or credits in Class D require a specific provision of 50% of the reservable amount. Consumer loans are categorized as Class D if payments are between 60 and 120 days late; a 60% specific reserve is required on the unsecured portion of the total outstanding loan. Residential mortgage loans are Class D when payments are between 120 and 365 days late; such loans require a 50% specific reserve on the unsecured portion of the total outstanding loan.

Class "E". Loans or credits in this class are known as "loss" credits. Commercial loans or credits which are considered unrecoverable or which for any other reason do not justify carrying on the books of Credicorp as an asset on the originally contracted terms must be so categorized. Commercial loans or credits included in Class E require a specific provision of 100% of the reservable amount. Consumer loans are categorized as Class E if payments are more than 120 days late; such loans require a 100% specific reserve on the unsecured portion of the total outstanding loan amount. Residential mortgage loans become Class E when payments are more than 365 days late; such loans require a 100% specific reserve on the unsecured portion of the total outstanding loan amount.

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

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

At December 31,						
	1991		1992		1993	
(U.S. Dollars in thousands, except percentages)						
Level of Risk						
<u>Classification</u>	<u>Amount</u>	<u>% Total</u>	<u>Amount</u>	<u>% Total</u>	<u>Amount</u>	<u>% Total</u>
A: Normal	US\$614,372	64.0%	US\$ 968,359	72.4%	US\$1,568,813	79.3%
B: Potential Problems ..	174,418	18.2	151,161	11.3	205,673	10.4
C: Substandard.....	112,375	11.7	101,750	7.6	106,626	5.4
D: Doubtful	40,267	4.2	97,228	7.3	86,138	4.3
E: Loss.....	19,069	2.0	19,812	1.5	11,989	0.6
Total	US\$960,501	100.0%	US\$1,338,310	100.0%	US\$1,979,239	100.0%
C+D+E	US\$171,711	17.9%	US\$218,790	16.3%	US\$204,753	10.3%

At December 31,				
	1994		1995	
Level of Risk				
<u>Classification</u>	<u>Amount</u>	<u>% Total</u>	<u>Amount</u>	<u>% Total</u>
A: Normal	US\$2,558,714	84.2%	US\$3,103,849	80.6%
B: Potential Problems	267,751	8.8	443,193	11.5
C: Substandard.....	116,448	3.8	163,232	4.2
D: Doubtful	84,055	2.8	99,441	2.6
E: Loss.....	13,201	0.4	41,001	1.1
Total	US\$3,040,169	100.0%	US\$3,850,716	100.0%
C+D+E	US\$ 213,704	7.0%	US\$ 303,674	7.9%

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

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

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

At December 31,					
	1992	1993	1994	1995	1996
(U.S. Dollars in thousands, except percentages)					
Current	US\$898,943	US\$1,262,032	US\$1,910,916	US\$2,966,643	US\$3,726,235
Past due:					
Overdue 16-119 days	16,661	11,100	9,117	17,146	35,454

Overdue 120 days or more.....	44,897	65,178	59,206	56,380	89,027
Subtotal	US\$ 61,558	US\$ 76,278	US\$ 68,323	US\$ 73,526	US\$ 124,481
Total loans.....	US\$960,501	US\$1,338,310	US\$1,979,239	US\$3,040,169	US\$3,850,716
Past due loan amounts as a percentage of total loans.....	6.41%	5.70%	3.45%	2.42%	3.23%

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

Past Due Loan Portfolio

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

	December 31,				
	1992	1993	1994	1995	1996
Past due loan amounts:		<i>(U.S. Dollars in thousands)</i>			
Loans	US\$20,976	US\$ 23,491	US\$16,670	US\$23,965	US\$ 44,964
Discounted notes	29,103	39,878	38,581	34,089	55,106
Advances and overdrafts in demand deposits	9,253	8,850	10,467	7,588	13,135
Leasing transactions	2,226	4,059	2,167	3,198	3,465
Refinanced Loans.....	0	0	438	4,686	7,811
Total past due portfolio.....	US\$61,558	76,278	68,323	73,526	US\$124,481
Specific reserves.....	US\$70,208	US\$80,800	US\$79,745	US\$76,310	US\$108,396
Generic reserves	7,154	20,656	26,933	43,299	52,205
Total reserves for loan losses.....	77,362	101,456	106,678	119,609	160,601
Total past due portfolio net of total reserves	US\$(15,804)	US\$(25,178)	US\$(38,355)	US\$(46,083)	US\$(36,120)

The amount of interest income collected from loans classified as past due at December 31, 1995 and 1996 was US\$2.9 million and US\$5.6 million, respectively. In accordance with Credicorp's accounting policies, interest on loans classified as past due is recorded on a cash-basis. As of December 31, 1996 and 1995, the interest that would have been recorded on these loans in accordance with their original terms and conditions amounted to approximately, US\$37.6 million and US\$27.4 million, respectively.

Loan Loss Reserves

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

	Year ended December 31,				
	1992	1993	1994	1995	1996
	<i>(U.S. Dollars in thousands)</i>				
Reserves for loan losses at the beginning of the year.....	US\$51,398	US\$ 77,362	US\$101,456	US\$106,678	US\$119,609
Additional provisions	37,881	52,812	38,386	52,812	71,871
Reversals of previous provisions (net) and transfers	(8,057)	(20,884)	(19,175)	(23,159)	(14,036)
Specific reserves	(15,568)	(35,981)	(19,175)	(23,159)	(14,036)

Generic reserves.....	7,511	15,097	--	--	--
Write-offs	--	--	(5,385)	(13,833)	(16,291)
Monetary Correction and Other.....	(3,860)	(7,834)	(8,604)	(2,889)	(552)
Reserves for loan losses at the end of the year	US\$77,362	US\$101,456	US\$106,678	US\$119,609	US\$160,601

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

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

Deposits

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

At December 31,			
	1994	1995	1996
	(U.S. Dollars in thousands)		
Demand deposits:			
Nuevo Sol-denominated	US\$ 174,396	US\$ 209,540	US\$ 272,687
Dollar-denominated.....	331,852	364,092	514,063
Total.....	\$US\$ 506,248	US\$ 573,632	US\$ 786,750
Savings deposits:			
Nuevo Sol-denominated	US\$ 225,472	US\$ 309,470	US\$ 313,249
Dollar-denominated.....	1,024,976	1,116,047	1,360,171
Total.....	US\$1,250,448	US\$1,425,517	US\$1,673,420
Time deposits: (1)			
Severance Indemnity Deposits (CTS)			
Nuevo Sol-denominated	US\$ 48,849	US\$ 48,364	US\$ 55,818
Dollar-denominated.....	368,247	403,044	510,174
Total.....	US\$ 417,096	US\$ 451,408	US\$ 565,992
Foreign Currency Bank Certificates			
Dollar-denominated.....	US\$ 178,489	US\$ 224,025	US\$ 267,994
Other deposits: (1)			
Nuevo Sol-denominated	US\$ 20,835	US\$ 52,039	US\$ 124,051
Dollar-denominated.....	274,291	940,895	1,016,880
Total.....	US\$ 295,126	US\$ 992,934	US\$1,140,931

At December 31,			
Total deposits:			
Nuevo Sol-denominated.....	US\$ 469,552	US\$ 619,413	US\$ 765,805
Dollar-denominated.....	2,177,855	3,048,103	3,669,282
Total.....	IS\$2,647,407	US\$3,667,516	US\$4,435,087

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

The following table sets forth information regarding the maturity of Credicorp's time deposits in denominations of US \$100,000 or more at December 31, 1996:

	At December 31, 1996
	(U.S. Dollar in thousands)
Certificates of deposits:	
Maturing within 30 days	US\$ 23,743
Maturing after 30 but within 60 days	2,804
Maturing after 60 but within 90 days	30,066
Maturing after 90 but within 180 days.....	24,816
Maturing after 180 but within 360 days.....	6,621
Maturing after 360	1,504
Total certificates of deposits	US\$ 89,554
Time Deposits:	
Maturing within 30 days	US\$200,530
Maturing after 30 but within 60 days	147,533
Maturing after 60 but within 90 days	187,400
Maturing after 90 but within 180 days.....	43,645
Maturing after 180 but within 360 days.....	109,517
Maturing after 360.....	73,480
Total time deposits	US\$762,106
Total.....	US\$851,660

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT.

(a) Board of Directors

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

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

The following table sets forth the current Directors of Credicorp.

<u>Name</u>	<u>Position</u>	<u>Years served as a Director</u> (1)
Dionisio Romero(2)	Chairman	28
Luis Nicolini	Deputy Chairman	21
Reynaldo Llosa	Director	14
José Antonio Onrubia(2)	Director	8
Juan Carlos Verme	Director	7

(1) Of Credicorp, its subsidiaries and their predecessors as of December 31, 1996.

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

The Secretary of the Board of Directors is Tucker Hall. The Assistant Secretary of the Board of Directors is Fernando Palao.

(b) Executive Officers

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

<u>Name</u>	<u>Position</u>	<u>Officer Since</u> (1)
Dionisio Romero	Chief Executive Officer	1966 (2)
Raimundo Morales.....	Chief Operating Officer	1980
Carlos Muñoz	Executive Vice President	1981
Benedicto Cigüeñas.....	Chief Financial and Accounting Officer	1991
José Luis Gagliardi	Senior Vice President--Administration and Human Resources	1990 (3)
John M. Partridge.....	Senior Vice President--Operations and Systems	1984
Arturo Rodrigo.....	Senior Vice President--Insurance	1976

(1) Of Credicorp, its subsidiaries and their predecessors as of December 31, 1996.

(2) Mr. Romero served as an officer of BCP from 1966 through 1987 and from 1990 to the present. Mr. Romero has been an officer of PPS since 1972.

(3) Mr. Gagliardi previously served as an officer of BCP from 1981 through 1988.

ITEM 11. COMPENSATION OF DIRECTORS AND OFFICERS.

With respect to the year ended December 31, 1996, the aggregate amount of compensation paid by Credicorp to all directors and executive officers was US\$3.7 million. Credicorp does not disclose to its shareholders or otherwise make available to the public information as to the compensation of its individual directors or executive officers.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES.

None.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS.

(a) Credicorp

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

In March 1996, Credicorp purchased at market value the shares of Inversiones El Pacífico-Peruano Suiza (which in turn owned 20% of the shares of AFP Unión) from a company controlled by two directors of Credicorp.

(b) BCP

Certain related parties of BCP (the "BCP related parties") have been involved, directly or indirectly, in credit transactions with BCP. In accordance with Law 26702, the term "BCP related parties" includes directors, certain principal executive officers and holders of more than 4% of the shares of BCP, and companies controlled (for purposes of Law 26702) by any of them. Under Law 26702, all loans to related parties must be made on terms no more favorable than the best terms that the bank offers to the public. Management believes BCP to be in full compliance with all related party transaction requirements imposed by Law 26702. For a description of Law 26702 as it relates to BCP, see "Item 1. Description of Business—(1) Supervision and Regulation—(ii) BCP" and "Item 9. Management's Discussion and Analysis of Financial Condition and Results of Operations—(c) Selected Statistical Information—Loan Portfolio—Concentration of Loan Portfolio and Lending Limits."

As of December 31, 1996, loans and other contingent credits to BCP related parties were US\$188.6 million in the aggregate, including US\$158.2 million in outstanding loans, which comprised approximately 5.3% of BCP's total loan portfolio. These loans and other contingent credits were ranked in the following risk categories at December 31, 1996: Class A (normal credits)—85.7%; Class B (potential problems)—4.8%; Class C (substandard)—9.5%; Class D (doubtful)—0%; and Class E (loss)—0%.

At December 31, 1996, loans and other credits to employees of BCP amounted to US\$23.3 million, of which US\$19.7 million represented home mortgage loans.

BCP purchases certain security services from a company controlled by a BCP related party. As of December 31, 1996, the total fees paid by BCP thereto for security services were S/ 3.3 million. Such related party transactions have been conducted in the ordinary course of business and on terms no less favorable than could be obtained from unaffiliated third parties.

(c) ASHC

Certain related parties of ASHC (the "ASHC related parties") have been involved, directly or indirectly, in credit transactions with ASHC. The term "ASHC related parties" includes other affiliated entities in which there exists control or significant influence through common ownership, management or directorship. As of December 31, 1996, loans and other credits outstanding to ASHC's related parties were US\$39.1 million in the aggregate, of which US\$38.4 million were loans representing 13.7% of the total loan portfolio. None of these loans and other credits were classified as substandard or below and 99% of these loans were fully secured.

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

(d) PPS

PPS provides insurance services to certain of its principal shareholders, directors and officers, as permitted by Law 26702. See "Item 1. Description of Business—(1) Supervision and Regulation—(v) PPS—Related Party Transactions." In the case of "related companies," entities controlled by shareholders owning more than 4% of PPS or by members of PPS's Board of Directors, insurance services are offered and sold on an arm's-length basis; PPS charges a market price for these services. As of December 31, 1996, insurance premiums to related companies amount to S/ 36.7 million (US\$14.2 million). These insurance premiums comprise approximately 10.2% of PPS's total premiums written during 1996.

PPS purchases security services from a company controlled by a related party of a principal shareholder of Credicorp. Service payments thereto for 1996, as of December 31, 1996, were S/ 522,202 (US\$202,404). All such related party transactions are conducted on an arm's-length basis, and PPS pays the market price for these services.

As of December 31, 1996, loans and other credits to employees of PPS amounted to S/ 2.2 million, of which a substantial majority represented home mortgage loans.

PART II

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED.

Not applicable.

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

PART IV

ITEM 17. FINANCIAL STATEMENTS.

Not applicable.

ITEM 18. FINANCIAL STATEMENTS.

Reference is made to pages F-1 through F-[].

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS.

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