

CREDICORP LTD  
Form 20-F/A  
July 02, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 20-F**

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, 2006

OR

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

OR

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

Date of event requiring this shell company report \_\_\_\_\_

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)

**Calle Centenario 156**

**La Molina**

**Lima 12, Perú**

(Address of principal executive offices)

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**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 94,382,317

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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## PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise specified or the context otherwise requires, references in this Form 20-F (the “Annual Report”) to “\$,” “US\$,” “Dollars” and “U.S. Dollars” are to United States dollars, references to “S/,” “Nuevo Sol” or “Nuevos Soles” are to Peruvian Nuevos Soles and references to “foreign currency” are to U.S. Dollars. Each Nuevo Sol is divided into 100 céntimos (cents).

Credicorp Ltd., a Bermuda limited liability company (“Credicorp” as a separate entity or together with its consolidated subsidiaries, as the context may require), maintains its financial books and records in U.S. Dollars and presents its financial statements in accordance with International Financial Reporting Standards (“IFRS”). IFRS vary in certain respects from United States generally accepted accounting principles (“U.S. GAAP”). For a discussion of significant differences between IFRS and U.S. GAAP, together with a reconciliation of net income and shareholders’ equity to U.S. GAAP for Credicorp, see Note 29, as restated, to Credicorp’s consolidated financial statements for the years ended December 31, 2004, 2005 and 2006 (the “Credicorp Consolidated Financial Statements”) included elsewhere herein.

Credicorp operates primarily through its four principal subsidiaries, Banco de Crédito del Perú (together with its consolidated subsidiaries, “BCP”), Atlantic Security Holding Corporation (together with its consolidated subsidiaries, “ASHC”), El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros (together with its consolidated subsidiaries, “PPS”) and Grupo Crédito S.A (together with its consolidated subsidiaries, “Grupo Crédito”). BCP’s activities include commercial banking, investment banking and retail banking. As of and for the year ended December 31, 2006, BCP, accounted for 69.7% of Credicorp’s total revenues, 82.2% of total assets, 88.3% of net income and 71.6% of shareholders’ equity. Unless otherwise specified, the individual financial information for BCP, ASHC, PPS and Grupo Crédito included herein has been derived from the audited consolidated financial statements of each such entity. See “Item 3. Key Information—(A) Selected Financial Data” and “Item 4. Information on the Company—(A) History and Development of the Company.”

“Item 3. Key Information—(A) Selected Financial Data” contains key information related to Credicorp’s performance. Such information was obtained mainly from Credicorp’s consolidated financial statements as of December 31, 2002, 2003, 2004, 2005 and 2006.

Credicorp management’s criteria on foreign currency translation for the purpose of preparing the Credicorp Consolidated Financial Statements is described in “Item 5. Operating and Financial Review and Prospects—(A) Operating Results—(1) Critical Accounting Policies—Foreign currency translation.”

Certain of Credicorp’s subsidiaries maintain their operations and balances in Nuevo Soles. As a result, this Annual Report contains certain Nuevo Sol amounts translated into U.S. Dollars solely for the convenience of the reader. None 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, such U.S. Dollar amounts have been translated from Nuevos Soles at an exchange rate of S/3.196= US\$1.00, the December 31, 2006 exchange rate set by the Peruvian Superintendencia de Banca, Seguros y AFP (the Superintendency of Banks, Insurance and Pension Funds, or “SBS”). The average of the bid and offered free market exchange rates published by SBS for June 8, 2006 was S/3.175 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 also “Item 3. Key Information—(A) Selected Financial Data—Exchange Rates” for information regarding the average rates of exchange between the Nuevo Sol 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 Nuevos Soles.



## CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Annual Report that are not historical facts, including, without limitation, certain statements made in the sections hereof entitled “Item 3. Key Information,” “Item 4. Information on the Company,” “Item 5. Operating and Financial Review and Prospects” and “Item 11. Quantitative and Qualitative Disclosures about Market Risk,” which are forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934 (the “Exchange Act”). These forward-looking statements are based on management’s current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. Actual results, performance or events may differ materially from those in such statements due to, without limitation:

- general economic conditions, including in particular economic conditions in Peru;
- performance of financial markets, including emerging markets;
- the frequency and severity of insured loss events;
- interest rate levels;
- currency exchange rates, including the Nuevo Sol/U.S. Dollar exchange rate;
- increasing levels of competition in Peru and other emerging markets;
- changes in laws and regulations;
- changes in the policies of central banks and/or foreign governments; and
- general competitive factors, in each case on a global, regional and/or national basis.

See “Item 3. Key Information—(D) Risk Factors,” and “Item 5. Operating and Financial Review and Prospects.”

Credicorp is not under any obligation to, and expressly disclaims any such obligation to, update or alter its forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I**

**ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**(A) Selected Financial Data**

The following table presents summary consolidated financial information for Credicorp at the dates and for the periods indicated. This selected financial data is presented in U.S. Dollars. This information should be read in conjunction with, and is qualified in its entirety by reference to, the Credicorp Consolidated Financial Statements, also presented in U.S. Dollars.

The summary consolidated financial data as of, and for the years ended, December 31, 2002 are derived from the Credicorp Consolidated Financial Statements audited by Dongo-Soria Gaveglio y Asociados, a member firm of PricewaterhouseCoopers, independent auditors. The summary consolidated financial data as of, and for the years ended, December 31, 2003, 2004, 2005 and 2006 are derived from the Credicorp Consolidated Financial Statements audited by Medina, Zaldívar, Paredes & Asociados, member of Ernst & Young Global, independent registered public accountants.

The report of Medina, Zaldívar, Paredes & Asociados on the Credicorp Consolidated Financial Statements as of December 31, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006 appears elsewhere in this Annual Report.

The summary consolidated financial information presented below and the Credicorp Consolidated Financial Statements are prepared and presented in accordance with IFRS, which differ in certain respects from U.S. GAAP. See Note 29, as restated, to the Credicorp Consolidated Financial Statements, which provides a description of the significant differences between IFRS and U.S. GAAP, as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp's net income and shareholders' equity.

## SELECTED FINANCIAL DATA

Year ended December 31,

2002                      2003                      2004                      2005                      2006  
*(U.S. Dollars in thousands, except percentages, ratios, and per common share data)*

**INCOME STATEMENT****DATA:****IFRS:**

Interest income	US\$531,874	US\$548,285	US\$542,842	US\$612,432	US\$782,002
Interest expense	(178,070)	(163,580)	(160,298)	(173,159)	(283,478)
Net interest income	353,804	384,705	382,544	439,273	498,524
Provision for loan losses (1)	(99,596)	(66,421)	(16,131)	6,356	4,243
Net interest income after provision for loan losses	254,208	318,284	366,413	445,629	502,767
Fees and commissions from banking services	177,305	189,472	201,474	206,163	243,778
Net gains (losses) from sales of securities	(1,097)	3,235	10,135	8,965	27,281
Net gains on foreign exchange transactions	22,582	23,681	24,165	29,286	41,638
Net premiums earned	125,218	125,115	192,672	218,955	251,261
Other income	11,651	23,227	8,105	21,571	26,197
Claims on insurance activities	(97,901)	(99,774)	(154,325)	(175,500)	(186,522)
Operating expenses	(404,186)	(430,373)	(459,928)	(477,073)	(585,058)
Merger costs	0	(18,587)	(3,742)	0	(5,706)
Income before translation result and income tax	87,780	134,280	184,969	277,996	315,636
Translation result	(2,482)	(3,675)	2,040	(9,597)	15,216
Income tax	(32,628)	(39,695)	(45,497)	(73,546)	(83,587)
Net income	52,670	90,910	141,512	194,853	247,265
Net income attributable to Credicorp's equity holders	42,383	80,607	130,747	181,885	230,013
Minority interests	10,287	10,303	10,765	12,968	17,252
Net income per Common Share attributable to Credicorp's equity holders (2)	0.53	1.01	1.64	2.28	2.88
Cash dividends declared per Common Share	0.30	0.40	0.80	1.10	1.30

**U.S. GAAP:**

Net income (3)	44,238	85,710	122,454	230,123	175,024
Net income per Common Share (2),(3)	0.55	1.07	1.54	2.89	2.19

**BALANCE SHEET****DATA:****IFRS:**

Total assets	8,629,631	8,321,783	9,087,560	11,036,075	12,881,529
Total loans (4)	4,817,663	4,481,496	4,559,018	4,972,975	5,877,361

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Reserves for loan losses (1)	(424,031)	(326,677)	(271,873)	(218,636)	(210,586)
Total deposits	6,381,200	5,976,506	6,270,972	7,067,754	8,799,134
Equity attributable to Credicorp's equity holders	823,800	910,730	1,065,197	1,190,440	1,396,822
Minority interest	64,742	72,841	85,253	101,515	136,946
Equity	888,542	983,571	1,150,450	1,291,955	1,533,768
<b>U.S. GAAP:</b>					
Shareholders' equity	826,833	917,986	1,077,306	1,202,549	1,403,944
<b>SELECTED RATIOS:</b>					
<b>IFRS:</b>					
Net interest margin (5)	5.07%	5.15%	4.85%	4.90%	4.64%
Return on average total assets (6)	0.52	0.95	1.50	1.81	1.92
Return on average equity attributable to Credicorp's equity holders (7)	5.23	9.27	13.55	16.39	18.47
Operating expenses as a percentage of net interest and non-interest income (8)	52.78	50.66	49.18	46.25	50.26
Operating expenses as a percentage of average assets	4.99	5.08	5.28	4.74	4.89
Equity attributable to Credicorp's equity holders as a percentage of period end total assets	9.55	10.94	11.72	10.79	10.84
Regulatory capital as a percentage of risk-weighted assets (9)	14.38	15.28	14.04	13.10	11.98
Total past due loan amounts as a percentage of total loans (10)	8.43	5.72	3.49	1.93	1.31
Reserves for loan losses as a percentage of total loans	8.80	7.29	5.96	3.97	3.24
Reserves for loan losses as a percentage of total loans and other contingent credits (11)	6.57	5.38	4.99	3.19	2.59
Reserves for loan losses as a percentage of total past due loans (12)	104.41	127.50	170.93	206.22	247.85
Reserves for loan losses as a percentage of substandard loans (13)	51.81	50.26	54.11	65.42	78.24

(1) Provision for loan losses and reserve for loan losses include provisions and reserves with respect to total loans and contingent credits, net of write off recoveries.



- (2) Credicorp has 100 million authorized common shares (“Common Shares”). As of December 31, 2006, Credicorp had issued 94.4 million Common Shares, of which 14.6 million are held by ASHC. Per Common Share data presented considers net outstanding shares (Common Shares net of shares held by BCP, ASHC and PPS) of 79.7 million in 2002 to 2006. See Notes 17 and 24 to the Credicorp Consolidated Financial Statements.
- (3) As explained in Note 29 paragraph (c) to Credicorp Consolidated Financial Statements included elsewhere herein, net income and net income per common share have been restated from the year 2002 to 2005 due to the application of EITF 96-15. As a result, the previous reported amounts have been restated in increasing (decreasing) the net income reported by (in thousands) US\$(1,178), US\$(880), US\$(13,146) and US\$48,238 for 2002, 2003, 2004 and 2005, respectively.
- (4) Net of unearned interest, but prior to reserve for loan losses. In addition to loans outstanding, Credicorp had contingent loans of US\$956.9 million, US\$782.9 million, US\$889.1 million, US\$1,220.9 million and US\$1,455.4 million, as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively. See Note 20 to the Credicorp Consolidated Financial Statements.
- (5) Net interest income as a percentage of average interest-earning assets, computed as the average of period-beginning and period-ending balances on a monthly basis.
- (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 equity attributable to Credicorp’s equity holders, computed as the average of period-beginning and period-ending balances. Calculated on a monthly basis.
- (8) Sum of the salaries and employee’s benefits. Administrative expenses, depreciation and amortization, as a percentage of the sum of net interest income and non-interest income, less net gains from sales of securities and other income.
- (9) Regulatory capital calculated in accordance with guidelines by the Basel Committee on Banking Regulations and Supervisory Practices of International Settlements (the “BIS I Accord”) as adopted by the SBS. See “Item 5. Operating and Financial Review and Prospects—(B) Liquidity and Capital Resources—Regulatory Capital and Capital Adequacy Ratios.”
- (10) BCP considers loans past due after 90 days, for installment loans, which include mortgage loans but exclude consumer loans. 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 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(iii) Loan Portfolio—Classification of the Loan Portfolio Based on the Borrower’s Payment Performance.”
- (11) Other contingent credits primarily consist of guarantees, stand-by letters and letters of credit. See Note 20 to the Credicorp Consolidated Financial Statements.
- (12) Reserves for loan and contingent credit losses, as a percentage of all past due loans, with no reduction for collateral securing such loans. Reserves for loan and contingent credit losses includes reserves with respect to total loans and other credits.
- (13) Reserves for loan and contingent credit losses as a percentage of loans classified in categories C, D or E. See “Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(iii) Loan Portfolio—Classification of Loan Portfolio.”

**Exchange Rates**

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

<b>Year ended December 31,</b>	<b>High(1)</b>	<b>Low(1)</b>	<b>Average(2)</b>	<b>Period-end(3)</b>
	<i>(Nominal Nuevos Soles per U.S. Dollar)</i>			
2001	3.623	3.435	3.508	3.446
2002	3.644	3.435	3.460	3.520
2003	3.496	3.463	3.477	3.464
2004	3.500	3.283	3.410	3.283
2005	3.440	3.249	3.295	3.420
2006	3.455	3.195	3.274	3.195

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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 following table sets forth the high and low rates for the sale of Nuevos Soles for U.S. Dollars for the indicated months.

	<b>High(1)</b>	<b>Low(1)</b>
	<i>(Nominal Nuevos Soles per U.S. Dollar)</i>	
<b>2006</b>		
December	3.218	3.195
<b>2007</b>		
January	3.203	3.187
February	3.196	3.187
March	3.188	3.182
April	3.184	3.171
May	3.175	3.161
June (through June 8)	3.175	3.170

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Source: Bloomberg

(1) Highest and lowest of the daily closing exchange rates for each month based on the offered rate.

The average of the bid and offered free market exchange rates published by the SBS for June 8, 2007 was S/.3.175 per US\$1.00.

**(B) Capitalization and Indebtedness**

Not applicable.

**(C) Reasons for the Offer and Use of Proceeds**

Not applicable.

**(D) Risk Factors**

Credicorp's businesses are affected by a number of external and other factors in the markets in which they operate. Different risk factors can impact Credicorp's businesses and their ability to operate their respective businesses and business strategies effectively. The following risk factors should be considered carefully and read in conjunction with all of the information in this Annual Report.

*The Group's geographic location exposes it to risk related to the Peruvian political and economic conditions*

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 the financial condition of Credicorp will be dependent on the level of economic activity in Peru. Credicorp's results of operations and financial condition could also 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 government-induced effects on inflation, devaluation and economic growth.

During the past several decades, Peru has had a history of political instability that has included military coups and a succession of regimes with differing policies and programs. Past governments have frequently intervened in the

nation's economy and social structure. Among other actions, past governments have imposed controls on prices, exchange rates, local and foreign investment and international trade; restricted the ability of companies to dismiss employees; expropriated private sector assets; and prohibited the remittance of profits to foreign investors.

In July 1990, Alberto Fujimori was elected president, and his administration implemented a broad-based reform of Peru's political system and economic and social conditions aimed at and with a focus on stabilizing the economy, restructuring the national government (by reducing bureaucracy), privatizing state-owned companies, promoting private investment, developing and strengthening free markets, institutionalizing democratic representation, and enacting programs for the strengthening of basic services related to education, health and infrastructure. After taking office for his third term in July 2000 under extreme protest, President Fujimori was forced to call for general elections due to the outbreak of corruption scandals and later resigned in favor of a transitory government headed by the president of Congress, Valentín Paniagua.

Mr. Paniagua took office in November 2000 and in July 2001 handed over the presidency to Alejandro Toledo, the winner of the elections decided in the second round held on June 3, 2001, ending two years of political turmoil. President Toledo retained, for the most part, the economic policies of the previous government, focusing on promoting private investment, eliminating tax exemptions, and reducing underemployment and unemployment. President Toledo also implemented fiscal austerity programs, among other proposals, in order to stimulate the economy. Despite Peru's moderate economic growth, the Toledo administration at times faced public unrest spurred by the high rates of unemployment, underemployment and poverty.

President Toledo transferred the presidency to Alan García Pérez on July 28, 2006 following Mr. Garcia's victory in the run-off of the presidential elections held on June 4, 2006.

President García had previously served as president of Peru from 1985 to 1990, which period was marked by a severe economic crisis. President García is following conservative economic policies and has indicated a desire to avoid the mistakes of his past government. García named the conservative banker Luis Carranza as Minister of Economy and Finance. Carranza has held a senior position at Banco Bilbao Vizcaya Argentaria ("BBVA") in Spain and was a key adviser to Pedro Pablo Kuczynski, the Prime Minister (and former Minister of Economy and Finance) of former president Alejandro Toledo. García has indicated that his administration would generally follow economic policies similar to those of the Toledo administration, which included achieving sustained economic growth, increasing exports of Peruvian goods, reducing unemployment, underemployment and poverty, reforming the tax system, fostering private investment and increasing public investment in education, public health and other social programs, while reducing overall public spending.

*Foreign exchange fluctuations and exchange controls may adversely affect Credicorp's financial condition and results of operations*

Even though Credicorp's financial statements functional currency is U.S. Dollars, and its dividends are paid in U.S. Dollars, BCP and PPS, for local statutory purposes, prepare their financial statements and pay dividends in Nuevos Soles. As declared in the Peruvian Constitution, the Peruvian government currently imposes no restrictions on a company's ability to transfer U.S. Dollars from Peru to other countries, to convert Peruvian currency into U.S. Dollars or to remit dividends abroad, Peru has had restrictive exchange controls in the past and there can be no assurance that the Peruvian government will continue to permit such transfers, remittances or conversion without any restriction. See "Item 10. Additional Information—(D) Exchange Controls." In addition, a devaluation would decrease the U.S. Dollar value of any dividends BCP and PPS pay to Credicorp, which would have a negative impact on Credicorp's ability to pay dividends to shareholders.

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 impose exchange controls should its foreign reserves decline. A decline in Peruvian foreign reserves to inadequate levels, among other economic circumstances, could lead to a currency devaluation. While Credicorp seeks to manage the gap between its foreign currency-denominated assets and liabilities, for instance by matching the volumes and maturities of its Nuevo Sol-denominated loans against its Nuevo Sol-denominated deposits, a sudden and significant devaluation could have a material adverse effect on Credicorp's financial condition and results of operations. See "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Exchange Rate Sensitivity." Also, a significant group of BCP's borrowers and PPS's insureds generate Nuevo Sol revenues from their own clients. Devaluation of the Nuevo Sol against the Dollar could have a negative impact on the ability of BCP's and PPS's clients to repay loans or make premium payments. Despite any devaluation, and absent any change in foreign exchange regulations, BCP and PPS would be expected to continue to repay U.S. Dollar-denominated deposits and U.S. Dollar-denominated insurance benefits in U.S. Dollars. Therefore, any significant devaluation of the Nuevo Sol against the Dollar could have a material adverse effect on Credicorp's results of operations and financial condition.

*It may be difficult to serve process on or enforce judgments against Credicorp or Credicorp's principals residing outside of the United States*

A significant majority of Credicorp's directors and officers reside outside the United States (principally in Peru). All or a substantial portion of the assets of Credicorp or of such persons are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or upon Credicorp or to enforce against them in federal or state courts in the United States judgments predicated upon the civil liability provisions of the federal securities laws of the United States. Credicorp has been advised by its Peruvian counsel that there is uncertainty as to the enforceability, in original actions in Peruvian courts, of liabilities predicated solely under the United States federal securities laws and as to the enforceability in Peruvian courts of judgments of United States courts obtained in actions predicated upon the civil liability provisions of the United States federal securities laws. Credicorp has been advised by its Bermudan counsel that uncertainty exists as to whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the United States, against Credicorp or its directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against Credicorp or its directors or officers under the securities laws of other jurisdictions.

In addition, Credicorp's bye-laws (the "Bye-laws") contain a broad waiver by its shareholders of any claim or right of action, both individually and on Credicorp's behalf, against any of Credicorp's officers or directors. The waiver applies to any action taken by an officer or director, or the failure of an officer or director to take any action, in the performance of his or her duties, except with respect to any matter involving any willful negligence, willful default, fraud or dishonesty on the part of the officer or director. This waiver limits the right of shareholders to assert claims against Credicorp's officers and directors unless the act or failure to act involves willful negligence, willful default, fraud or dishonesty.

*As a holding company, Credicorp's ability to pay dividends to its shareholders and to pay corporate expenses may be adversely affected by restrictions on its subsidiaries to pay dividends to Credicorp*

As a holding company, Credicorp's ability to make dividend payments, if any, and to pay corporate expenses will be dependent primarily upon the receipt of dividends and other distributions from its operating subsidiaries. Credicorp's principal subsidiaries are BCP, PPS, ASHC and Grupo Crédito. There are various regulatory restrictions on the ability of Credicorp's subsidiaries to pay dividends or make other payments to Credicorp. 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 to its shareholders will be adversely affected. Currently, there are no restrictions on the ability of BCP, ASHC, PPS or Grupo Crédito to remit dividends abroad. In addition, the right of Credicorp to participate in

any distribution of assets of any subsidiary, including BCP, PPS, ASHC and Grupo Crédito, upon any such subsidiary's liquidation or reorganization or otherwise (and thus the ability of holders of Credicorp securities to benefit indirectly from such distribution), will be subject to the prior claims of creditors of that subsidiary, except to the extent that any claims of Credicorp as a creditor of such subsidiary may be recognized as such. Accordingly, Credicorp's securities will effectively be subordinated to all existing and future liabilities of Credicorp's subsidiaries, and holders of Credicorp's securities should look only to the assets of Credicorp for payments.

*A deterioration in the quality of our loan portfolio may adversely affect our results of operations*

Given that a significant percentage of Credicorp's revenues are related to banking activities, a deterioration of loan quality may have an adverse impact on the financial condition and results of operations of Credicorp. While loan portfolio risk associated with lending to certain economic sectors or clients in certain market segments can be mitigated through adequate diversification policies, Credicorp's pursuit of opportunities in which it can charge higher interest rates, thereby increasing revenues, may reduce diversification of the loan portfolio and expose Credicorp to greater credit risk. Credicorp believes that significant opportunities exist in middle market and consumer lending in Peru and that Credicorp can, on average, charge higher interest rates on such loans as compared with interest charged on loans in its core corporate banking business, made primarily to clients that operate in industrial and commercial economic sectors. Accordingly, Credicorp's strategy includes a greater emphasis on middle market and consumer loans, as well as continued growth of its loan portfolio in general. An increase in the portfolio's exposure to these areas could be accompanied by greater credit risk, not only due to the speed and magnitude of the increase, but also due to the shift to lending to the middle market and consumer sectors, which have higher risk profiles compared, particularly, to loans to large corporate customers. Given the changing composition of its loan portfolio, historical loss experience may not be indicative of future loan loss experience.

*We are subject to banking regulation and supervision in Peru. Changes in the regulatory framework in Peru could adversely affect our business*

Credicorp is subject to extensive supervision and regulation through the SBS's consolidated supervision regulations, which oversee all of Credicorp's subsidiaries and offices including those located outside Peru. BCP's operations are supervised and regulated by the SBS and the *Banco Central de Reserva* ("Central Bank"). Peru's Constitution and the SBS's statutory charter grant the SBS the authority to oversee and control banks and other financial institutions. The SBS and the Central Bank have general administrative responsibilities over BCP, including designation of capitalization and reserve requirements. In past 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. Such changes in the supervision and regulation of BCP, if made in the future, may adversely affect the results of operations and financial condition of Credicorp. See "Item 4. Information on the Company—(B) Business Overview—(11) Supervision and Regulation—(ii) BCP."

*We are subject to insurance regulation in Peru. Changes in insurance regulations may impact the ability of our insurance subsidiary to underwrite and price risk effectively and may adversely affect Credicorp's operating performance and financial condition*

Credicorp's insurance business, carried out by its subsidiary PPS, is subject to regulation by the SBS. Insurance regulation in Peru is an area of constant change. New legislation or regulations may adversely affect PPS's ability to underwrite and price risks accurately, which in turn would affect underwriting results and business profitability. PPS is unable to predict whether and to what extent new laws and regulations that would affect its business will be adopted in the future, the timing of any such adoption, and what effects any new laws or regulations would have on its operations, profitability and financial condition.

Credicorp's operating performance and financial condition depend on PPS's ability to underwrite and set premium rates accurately for a full spectrum of risks. PPS must generate sufficient premiums to offset losses, loss adjustment expenses and underwriting expenses so it may earn a profit. In order to price premium rates accurately, PPS must collect and analyze a substantial volume of data; develop, test and apply appropriate rating formulae; closely monitor changes in trends in a timely fashion; and project both severity and frequency with reasonable accuracy. If PPS fails to assess accurately the risks that it assumes or does not accurately estimate its retention, it may fail to establish adequate premium rates, which could reduce income and have a material adverse effect on its operating results or financial condition. Moreover, there is inherent uncertainty in the process of establishing property and casualty loss reserves. Reserves are estimates based on actuarial and statistical projections at a given point in time of what PPS ultimately expects to pay out on claims and the cost of adjusting those claims, based on the facts and circumstances then known. Factors affecting these projections include, among others, changes in medical costs, repair costs and regulation. Any negative effect on PPS could have a material adverse effect on Credicorp's results of operations and financial condition.

*We are facing increased competition that may impede our growth*

BCP has experienced increased competition, including increased pressure on margins, primarily as a result of the presence of highly liquid commercial banks in the market; local and foreign investment banks with substantial capital, technology and marketing resources; and, recently, from local pension funds that lend to BCP's corporate customers through participation in such customers' securities issues. Larger Peruvian companies have gained access to new sources of capital, through local and international capital markets, and BCP's existing and new competitors have increasingly made inroads into the higher margin middle market and retail banking sectors. Such increased competition, with entrants who may have greater access to capital at lower costs, have affected BCP's loan growth as well as reduced the average interest rates that BCP can charge its customers.

Competitors may also appropriate greater resources and be more successful in the development of technologically advanced products and services that may compete directly with BCP's products and services, adversely affecting the acceptance of BCP's products and/or leading to adverse changes in spending and saving habits of BCP's customer base. If these entities are successful in developing products and services that are more effective or less costly than the products and services developed by BCP, BCP's products and services may be unable to compete successfully. Even if BCP's products and services prove to be more effective than those developed by other entities, such other entities may be more successful in marketing their products and services than BCP because of their greater financial resources, higher sales and marketing capacity, and other factors. BCP may not be able to maintain its market share if it is not able to match its competitors' loan pricing or keep pace with their development of new products and services. Any negative impact on BCP could have a material adverse effect on Credicorp's results of operations and financial condition.

*Fluctuation and volatility of capital markets and interest rates may decrease our net income*

Credicorp may suffer losses related to the investments by BCP, ASCH, PPS, Grupo Crédito and other subsidiaries in fixed income and equity securities, and to their respective positions in currency markets, because of changes in market prices, defaults, fluctuations in market interest rates or exchange rates or other reasons. A downturn in the capital markets may lead Credicorp to register net losses due to the decline in the value of these positions, in addition to negative net revenues from trading positions caused by volatility in prices in the financial markets, even in the absence of a general downturn.

Fluctuations in market interest rates, or changes in the relative structure between short-term interest rates and long-term interest rates, could cause a decrease in interest rates charged on interest-earning assets, relative to interest rates paid on interest-bearing liabilities. Such an occurrence could adversely affect Credicorp's financial condition by causing a decrease in net interest income.

**ITEM 4. INFORMATION ON THE COMPANY****(A) History and Development of the Company**

Credicorp Ltd. is a limited liability company incorporated in Bermuda in October 20, 1995 to act as a holding company, coordinate the policy and administration of its subsidiaries, and engage in investing activities. Credicorp's principal activity is to coordinate and manage the business plans of its subsidiaries in an effort to implement universal banking services and develop its insurance business, focusing in Peru and Bolivia and with limited investments in other countries of the region. It conducts its financial services business exclusively through its subsidiaries. Credicorp's registered address is Clarendon House 2 Church Street, Bermuda. Its management and administrative offices are located at Calle Centenario 156, La Molina, Lima 12, Perú, and its phone number is 51-1-313-2000.

Credicorp is the largest financial services holding company in Peru and is closely identified with its principal subsidiary, BCP, the country's largest bank and the leading supplier of integrated financial services in Peru. Credicorp is engaged principally in commercial banking (including trade finance, corporate finance and leasing services), insurance (including commercial property, transportation and marine hull, automobile, life, health and pension fund underwriting insurance) and investment banking (including brokerage, trust, custody and securitization services, asset management and proprietary trading and investment). As of December 31, 2006, Credicorp's total assets were US\$12.9 billion and shareholders' equity was US\$1.5 billion. Its net income attributable to Credicorp's equity holders in 2005 and 2006 was US\$181.9 million and US\$230.0 million, respectively. See "Item 3. Key Information—(A) Selected Financial Data" and "Item 5. Operating and Financial Review and Prospects." The following table presents certain financial information for Credicorp by principal business units as of and for the year ended December 31, 2006 (see Note 25 to the Credicorp Consolidated Financial Statements):

	<b>As of and for the Year ended December 31, 2006</b>		
	<b>Total</b>	<b>Operating</b>	<b>Total</b>
	<b>Revenues</b>	<b>Income</b>	<b>Assets</b>
	<i>(U.S. Dollars in millions)</i>		
Commercial Banking	US\$975	US\$447	US\$11,090
Insurance	316	115	989
Pension Fund Administration	23	-	227
Investment Banking and others	58	1	576
<b>Credicorp</b>	<b>US\$1,372</b>	<b>US\$563</b>	<b>US\$12,882</b>

Credicorp conducts its commercial banking and investment banking activities primarily through BCP, the largest (in terms of total assets, loans, deposits, shareholders' equity 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), ASHC, a diversified financial services company and the pension fund business through Prima AFP. Credicorp's insurance activities are conducted through PPS, the second largest Peruvian insurance company in terms of premiums, fees and net income.

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 the remaining 1.8% outstanding shares of ASHC in March 1996, pursuant to a further exchange offer.

In December 1995, Credicorp purchased 99.99% of Inversiones Crédito, a non-financial entity with assets of US\$50.4 million as of December 2004, with principal investments currently in shares of Peruvian electric utilities.

In August 1997, Credicorp acquired 39.5% of Banco de Crédito de Bolivia ("BCB") from BCP for US\$9.2 million. In July 1998, Credicorp acquired 97% of Banco de La Paz, a Bolivian bank with US\$52.1 million in assets, which was subsequently merged with BCB in January 1999, at which time Credicorp also increased its beneficial ownership in BCB to 55.79%, with BCP owning, directly or indirectly, 44.21%. In November 2001, BCP bought back a 53.1% stake in BCB from Credicorp for US\$30.0 million. As of December 31, 2005, BCB operated 47 branches located throughout Bolivia, together with 124 ATMs. BCB's results have been consolidated in the BCP financial statements since the date of its acquisition in November 1993.

In March 2002, Credicorp made a tender offer for outstanding BCP shares for S/.1.80 per share, approximately equal to the book value of such shares, disbursing directly and through its subsidiary PPS an amount of approximately US\$35.3 million. As a result of the tender offer, Credicorp's equity stake in BCP increased from 90.6% to 97.0% (including shares held by PPS).

In December 2002, BCP acquired, for US\$50.0 million, Banco Santander Central Hispano-Perú ("BSCH-Perú"), which is included in BCP's consolidated financial statements since such date. At December 31, 2002, BSCH-Perú had total assets of US\$975.2 million, total loans of US\$719.4 million and deposits of US\$659.0 million. BSCH-Perú was merged into BCP on February 28, 2003.

In March 2003, BCP, adding to its 55% stake, acquired for US\$17.0 million the remaining 45% of the equity shares of Solución Financiera de Crédito del Perú S.A. ("Solución") from Banco de Crédito e Inversiones de Chile ("BCI") and other foreign shareholders, making Solución once again a BCP wholly owned subsidiary. Substantially all of Solución's assets and liabilities were absorbed into BCP's Peruvian banking operations in March 2004. Solución's net income in 2003 was US\$7.6 million, and it had, as of February 28, 2004, a loan portfolio of US\$88.4 million, with a 3.0% past-due ratio.

During 2003, BCP converted Banco de Crédito Overseas Limited ("BCOL"), its offshore bank in the Bahamas, into a vehicle to conduct investments and sold it to ASHC. ASHC subsequently consolidated BCOL into its operations during 2004. Certain long-term equity interests, held previously by BCOL, were transferred to BCP which were then transferred to Inversiones Crédito in accordance with Credicorp's policy for holdings of equity interests in non-financial companies. In April 2004, PPS sold substantially all of its holdings of Credicorp's equity shares to ASHC (see "Item 7.-(A) Major Shareholders and Related Party Transactions").

In March 2004, PPS acquired Novasalud Perú S.A. - Entidad Prestadora de Salud (“Novasalud EPS”), one of three private health insurance providers in Peru, and merged Novasalud EPS with Pacífico S.A. Entidad Prestadora de Salud (“Pacífico Salud”), a subsidiary of PPS, in August 2004.

Banco Tequendama, a Colombian banking concern acquired by Credicorp in January 1997, was sold in March 2005 to a Colombian bank. This followed the sale by Credicorp in December 2002 of Banco Tequendama’s Venezuelan branches. While the sale of Banco Tequendama was publicly announced in October 2004 and its effective date was January 1, 2005, the sale was not completed until March 2005 when all approvals required from Colombian authorities were obtained. Credicorp did not record any significant gain as a result of the transaction.

In January 2005, BCP and Bank of America, both principal shareholders of Fleet Boston N.A., agreed to engage in a buy-sale transaction of the loan portfolio of the Peruvian branch of Bank Boston N.A. and the loan portfolio of Peruvian nationals with Fleet Boston N.A. The transaction, which took place on January 24, 2005, was recorded at acquisition cost. BCP paid approximately US\$353.8 million in cash for the loan portfolio, which included commercial loans, mortgage and leasing operations.

In February 2005, Credicorp was authorized by Peruvian regulatory authorities to establish Prima AFP, in which Grupo Crédito is the main shareholder. Prima AFP started operations in August 2005 and had losses of US\$7.6 million for the year ended December 31, 2005. As of December 31, 2005, Prima AFP invested funds of US\$255.2 million, representing a 2.5% market share, and had 51,838 members according to the SBS.

In August 2006, Prima AFP acquired Unión Vida AFP, a pension fund operating in the Peruvian market, in a strategic move towards consolidation, as part of its efforts to gain a leading position in the pension fund market. The acquisition of Unión Vida AFP, which was formerly held by Banco Santander, enabled Prima AFP to position itself as the second ranking company in market share terms, and as a leader in the industry, given its second highest returns and lowest commissions for affiliates. The merger between Prima AFP and Unión Vida AFP was consummated in December 2006.

Prima AFP incurred in important merger relative to its size, reaching the end of 2006 with losses of US\$20.7 million. Prima AFP reached the year-end as the system’s second pension manager with 997,963 affiliates, with funds under management amounting to US\$4,163 million and more than 17,000 pensioners. It also extended its geographical coverage to 11 service points and 19 points of sales, placing itself strategically as the most aggressive and solid managing company.

In November 2006, PPS sold to Credicorp its remaining 1.02% of BCP shares that it maintained to that date, generating a goodwill in respect of the minority interest acquired by Credicorp (0.25%) of approximately US\$7.2 million.

The following tables show the organization of Credicorp and its principal subsidiaries as of December 31, 2006 and their relative percentage contribution to Credicorp’s total assets, total revenues, net income and shareholders’ equity at the same date (see “—(C) Organizational Structure”):

## As of and for the Year ended December 31, 2006(2)

	Total Assets	Total Revenue	Net Income (Loss)	Shareholders' Equity
Banco de Crédito del Perú	82.2%	69.7%	88.3%	71.6%
Atlantic Security Holding Corporation	8.1%	4.6%	14.6%	7.2%
El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros	7.0%	22.8%	8.2%	14.6%
Grupo Crédito (1)	2.4%	2.4%	-5.8%	14.3%
Others (3)	0.3%	0.5%	-5.3%	-7.7%

(1) Includes Prima AFP and others.

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

(3) Includes Credicorp Securities Inc. and others.

The following tables show the organization of BCP and its principal subsidiaries as of December 31, 2006:

## As of and for the Year ended December 31, 2006(2)

	Total Assets	Total Revenue	Net Income (Loss)	Shareholders' Equity
Banco de Crédito del Perú	91.0%	89.2%	81.0%	82.7%
Banco de Crédito de Bolivia	5.8%	6.2%	6.3%	7.4%
Crédito Leasing S.A.	2.4%	2.0%	4.1%	2.5%
Financiera de Crédito Solucion	0.3%	0.2%	0.6%	0.6%
Credifondo S.A.	0.1%	1.1%	3.3%	1.9%
Credibolsa Sociedad Agente de Bolsa S.A.	0.1%	0.5%	1.1%	0.6%
Others(3)	0.3%	0.8%	3.6%	4.3%

(1) Credicorp holds an additional 4.08% stake.

(2) Percentages determined based on BCP's consolidated financial statements as of and for the year ended December 31, 2006.

(3) Includes Creditítulos S.A., Inmobiliaria BCP and others.

**(B)**

## **Business Overview**

### **(1) Introduction - Review of 2006**

Credicorp's results for 2006 maintained their positive trend from the four previous years and showed significant improvement due to a growing Peruvian economy and a favorable international environment. Consolidated net income increased substantially, and the quality of the loan portfolio and of investments in other risk assets continued to improve.

Net income attributable to Credicorp reached US\$230.0 million (compared to US\$181.9 million in 2005), representing an increase of 26.4% over the previous year and resulting in a return on equity for Credicorp's equity holders of 18.4% in 2006 (compared to 16.4% in 2005) and earnings per share of US\$2.88 in 2006 (compared to US\$2.28 in 2005). This result was reached despite significant non-recurring expenses in 2006, such as the start-up expenses of AFP Prima's operations and expenses relating to the merger with AFP Unión Vida.

The rise in profits is mainly a result of an increase in net interest income, an improvement of the loan portfolio, which eliminated the requirement for a provision charge for the credit portfolio, and the sustained growth in non-financial income. In addition, in 2006, PPS, Credicorp's insurance subsidiary, tripled its earnings measured in the previous year (2005 was a year in which PPS experienced high claims resulting in substantial losses), making a significant contribution to the results of Credicorp.

2006 was successful, not only in light of the profits obtained, but also because Credicorp reached significant achievements in the growth and quality of its managed assets, in improving its efficiency, and in attaining specific objectives in respect of each of its business lines.

The improvement in Credicorp's results in 2006 was mainly driven by Credicorp's expansion strategy for its banking business. Since 2005, Credicorp has focused on expanding its retail banking businesses that offered potential for higher growth and better margins as well as on expanding its transactional businesses. As a result, Credicorp's banking business experienced a substantial improvement in financial margins, despite a very competitive environment, had lower provisions for loans, and achieved sustained growth in revenues from banking services and lower provisions for loans.

Credicorp's total assets and asset quality improved substantially in 2006. Total assets reached US\$12.9 billion as of December 31, 2006, a 16.7% increase from US\$11.0 billion as of December 31, 2005. While total loans grew by 18.2% in 2006 (9.2% in 2005), increased liquidity led to an increase in investments of 21.7% in the same period. Provision for loan losses net of recoveries resulted in earnings of US\$4.2 million (US\$6.4 million in 2005), compared to losses of US\$16.1 million in 2004. This is attributable to the better quality of the loan portfolio in the past two years. For the fifth consecutive year, past due loans have been decreasing and reached 1.3% in 2006 (1.9% at year-end 2005; 3.5% at year-end 2004), while past due loan coverage by provisions increased significantly to 247.9% from 206.3% at year-end 2005 and from 170.9% at year-end 2004.

BCP's consolidated net income attributable to Credicorp in 2006 reached US\$238.9 million, (US\$176.5 million in 2005), part of a distinct upward trend during the last few years, which primarily resulted from: (i) the growth of the loan portfolio, which in turn generated greater net interest income; (ii) the substantial improvement in the quality of the loan portfolio, which allowed for lower provisions and greater recoveries of the distressed portfolio of prior years; and (iii) the implementation of a strategy focused on more profitable sectors not yet served by the financial system and on the transactional activity that encouraged the growth of non-financial income. As a consequence of this favorable evolution of results, BCP marked a major growth in profitability as a percentage of its average net equity, reaching an all-time high of 28.6%.



2006 was a year of substantial loan growth. In addition to the 29% growth in BCP's Retail Banking Group as a result of the dynamic expansion of the retail segment of the Peruvian economy, wholesale banking also grew significantly with the loan portfolio growing 17%. This loan growth is a consequence of two parallel dynamics: pre-electoral uncertainty led companies to take loans to secure future liquidity, while election results, which generated trust in the continuity of the economic policies, enabled the financing of major long- and medium-term projects.

As of December 31, 2006, BCP's assets totaled US\$10,672 million, a 15% increase from December 31, 2005. BCP's loan book of US\$5,678 million represents 53% of BCP's total assets, compared to 50% in 2005. This loan growth, measured in average daily balances for the year, reached 17.2%. As previously mentioned, retail was the main contributor to BCP's results, posting the best performance among all Groups, growing 29%. Within this Group, mortgage credits continued to be the most important product with 47% of portfolio share, followed by PYME (small and mid-sized companies) credits that represented 30%. However, the product which has proven to be the most dynamic in terms of growth was the credit card, showing a significant increase of 39% during 2006, and reaching a total of US\$198.9 million, followed by PYME credits (which grew by 38%) and consumer credits (which reached a 36% growth). Given the better margins available in this business, retail banking has become the driving force of growth and recovery of BCP profitability.

Loans past due reached a historical low of 1.31%, and coverage of provisions on non-performing portfolio reached 249.5%. These ratios reflect a combination of very low provisions requirements and the continuation of portfolio write-off recoveries, benefiting results.

It is important to highlight the strong growth of transactional operations in 2006, made possible by the expansion of the different distribution channels. In 2006, 19 new branches were inaugurated, reaching a total of 237, and 104 ATM machines were added, for a total of 655. The massive launch of an efficient and innovative channel, the Agent BCP, had great significance during 2006. The Agent BCP is a modified and significantly less expensive version of an automated teller. 490 such new points were opened, totaling 551, supporting an expansion of about 75% in the bank distribution network. Together with this initiative, in 2006, new savings products - e.g., the "zero account" and the "free account" where there is no minimum balance requirement for opening the account and no fees are charged for maintenance, ATM transactions, phone banking, or Internet banking transactions - were successfully introduced. All of these reflect BCP's efforts to serve a greater number of people, increase banking penetration and BCP's inclusion in the banking system by encouraging the use of banking services among people who previously did not use them.

The level of the efficiency ratio was in line with expectations: at 50.5% in 2006, it was lower than the 51.9% in 2005, resulting from the strong growth in operating income and controlled operating expenses, which grew by 11.6%. A component of operating expenses is personnel expenses, which rose by 14% as a consequence of the decision to improve customer service through longer service hours and the hiring of service promoters. 1,118 jobs were added in 2006, to a total headcount of 8,860 (7,740 in 2005). Additionally, general expenses grew by 11.7% due to aggressive marketing campaigns and customer loyalty-building programs, as well as system expenses, including maintenance of computer hardware, software and infrastructure, licenses and other projects. System's expenses in 2006 were over US\$41 million.

In the Bolivian market, Banco de Crédito de Bolivia (BCB) consolidated its position in 2006, reaching levels that exceeded management's expectations, given the political circumstances, and producing US\$14.1 million in income, 38.2% higher than in 2005. BCB's conservative credit risk management strategy was maintained in 2006, with non-performing loans totaling 3.6%, while coverage stood at 163.6%, compared to ratios of 8.7% and 90.7%, respectively, in the rest of the Bolivian banking system, making BCB the best performing bank in the Bolivian market. BCB's return over average equity reached 21.7% in 2006, which is the highest in the bank's history.

As for BCB's market share, the gross portfolio stood at 14.0% in 2006, while deposits totaled 14.8%, making BCB, when measured in those terms, the third ranking bank in the market.

In 2006, BCB focused on high-margin sectors, including retail, commercial banking and the recently created "Banca Consolidada", a sector consisting of businesses with annual sales below US\$1 million. The PYME sector was also strengthened and enjoyed significant progress.

Atlantic Security Holding Corporation's net income reached US\$31.5 million, 25% higher than the US\$25.2 million reached in 2005. The main factors driving this growth included higher income from Credicorp dividends and ASHC's strategy of focusing on the asset management business. The results were a growth of 24% in fee income and increased investment gains. Dividend income increased by 40.6% from that of 2005, as a result of Credicorp's higher income. However, this income was eliminated in the consolidation, so that ASHC's contribution to Credicorp's results reached US\$15.4 million, 14.1% more than the US\$13.5 million reached in 2005, reflecting ASHC's excellent core business growth. Total managed funds, deposits and assets under management were US\$2.5 billion, 25% higher than the US\$2.0 billion reached in 2005, with approximately 54% of such funds, deposits and assets under management, consisting of third-party funds that are managed with a lower risk to ASHC.

#### *The Insurance Business*

Pacifico Peruano Suiza (PPS), with the support of its strategic partner American International Group ("AIG"), has reorganized the company around two key areas of management: distribution channels and specialized risk management by area.

First, with respect to distribution channels, PPS has placed special emphasis on relationships with brokers. Brokers were assigned specialized employees to assist them in the issuance of policies and in the process of claim settlement. In addition, brokers are receiving operational support to maximize the use of technological platforms and online services.

Second, a specialized team has been formed for the purpose of analyzing risk by area, *e.g.*, fire, automobiles, health and fraud. This team is responsible for improving the technical results through a study of the risk portfolio by area, applying best practices in selection, operations and marketing, and for creating new products aligned with Peruvian's economic and social reality.

At the same time, PPS has prepared for the changes that will occur as a result of the adoption of the Basel II and Solvency II recommendations. This was done by reinforcing and adding new investment practices for maximizing profitability, respecting an appropriate match of currency and terms for its assets and liabilities and, above all, supporting technical obligations. The reorganization of the investment portfolio improved asset and liability management, not only in terms but in currencies as well.

During 2006, service excellence was defined as a competitive strategy, and to lead the market in such environment, the company's production process was redesigned to offer customers, brokers and insured parties a simple, easy and tangible experience in the purchase of insurance policies.



As for financial results for 2006, under IFRS, PPS, which encompasses Pacífico Seguros, Pacífico Vida and Pacífico Salud EPS, recorded a total premium of US\$372.6 million, a 3.8% increase from 2005. However, in 2006 Pacífico Seguros reported very significant and extraordinary financial gains, which increased net income to US\$53.3 million, well above the US\$7.0 million obtained in 2005. Such extraordinary financial gains reached approximately US\$40 million and resulted from the sale of BCP and Alicorp shares (approximately US\$34 million in gains on the sale of BCP shares). However, these gains were largely eliminated in the consolidation process, because the BCP shares were sold within the Credicorp Group. Thus, the recovery in PPS's contribution to Credicorp increased from US\$5.6 million in 2005 to US\$14.5 million in 2006.

The effects of the strategy change are already noticeable in the growth of consolidated net premiums earned by the group, which increased at the rate of 6.2% in 2006, and even more so in the evolution of the technical results of the group, which have recovered significantly, reaching a growth of 78% over 2005 results. This has led to an improvement in the ratio of underwriting results as a percentage of total premiums with a 9.3% in 2006, compared to a 5.5% in 2005.

In 2006, Prima AFP (and after December 2006, together with Unión Vida AFP) incurred a loss of US\$20.7 million, higher than initially expected and 172% higher than the US\$7.6 million loss registered in 2005. The losses resulted from the significant start-up and merger costs incurred in both years.

Additionally, as a result of acquiring Unión Vida, Prima AFP absorbed merger expenses, including the full depreciation of Unión Vida: IT systems, the use of which was discontinued in December 2006, the write-off of the brand "Unión Vida" and the cost associated with discharging staff as of December, 2006.

As a result of its own growth and the growth provided by the Unión Vida acquisition, Prima AFP reached December 31, 2006 as the industry's second largest pensions administrator, with 997,963 affiliates, total funds under management of US\$4,206 million and more than 17,000 pensioners. It also extended its geographical coverage to 11 service points and 19 points of sale.

The following table sets forth the contribution to the consolidated net income attributable to Credicorp's equity holders by each of its principal subsidiaries:

	2004	2005	2006	Variation 2006/2005
	<i>(U.S. Dollars in millions, except percentages)</i>			
BCP(1)	111.4	176.5	238.9	35.4%
ASCH	13.3	13.5	15.4	14.1%
PPS	9.6	5.6	14.5	158.9%
Grupo Crédito(2)	-3.6	-13.7	-38.8	183.2%
Total	130.7	181.9	230.0	26.4%

(1)Includes Banco de Crédito de Bolivia, which contributed US\$14.1 million in 2006, US\$10.2 million in 2005 and US\$4.8 million in 2004.

(2)Includes Prima AFP (which recorded losses of US\$20.7 million in 2006 and US\$7.6 million in 2005), Credicorp Securities, Credicorp Ltd. holding company, which mainly includes tax withheld in connection with the distribution of dividends to Credicorp by its Peruvian subsidiaries (BCP and PPS), and others.



## **(2) Strategy**

The underlying principle of Credicorp's strategy is to focus on growth opportunities within the market, on identifying synergies that will enable high levels of efficiency in its business and on defining individual "roadmaps" to enhance profitability and improve returns of each of Credicorp's investments. To this end, Credicorp tries to combine knowledge, resources, experience, technology and capabilities for the benefit of the group as a whole.

In line with this strategy, in 2006 Credicorp focused on:

- expanding the banking business (BCP, BCB) through strong retail and transactional business expansion;
- restructuring the insurance business (PPS);
- positioning of Prima AFP, the pension fund management business; and
- improving the management of the assets held by Credicorp's companies.

The objective of improving and sustaining the profitability of the group as a whole can only be attained through disciplined implementation of a well-grounded, long-term strategy. Credicorp's strategy has proven successful and was confirmed by the results achieved in 2006. Therefore, Credicorp intends to continue following the path taken in 2006. Hence, many of the measures planned for 2007 are focused not only on specific business areas, but also on better use of the group's resources.

Apart from the group's internal strategy, the advancement in the economic and financial environment in Peru in general, and the development of the retail banking market, in particular, also set the trend for the group's banking and other businesses and shape overall Credicorp strategy.

Following is a description of the specific strategies employed by the various businesses in the group:

### *Banking Business*

#### *Banco de Crédito del Perú - BCP*