CREDICORP LTD
Form 20-F
June 30, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2005

OR

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

OR

o **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)

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
x	o

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
o	x

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
x	o

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 x Accelerated filer o Non-accelerated filer o

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

Item 17 o Item 18 x

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
o	x

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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 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 27 to Credicorp s consolidated financial statements for the years ended December 31, 2003, 2004 and 2005 (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, 2005, BCP accounted for 68.2% of Credicorp s total revenues, 80.8% of total assets, 90.4% of net income and 70.3% 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 from Credicorp s consolidated financial statements as of December 31, 2001, 2002, 2003, 2004 and 2005.

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 (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/.3.430 = US$1.00, the December 31, 2005 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 9, 2006 was S/.3.261 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 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 Perú;
- 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 Perú 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, 2001, and 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 and 2005 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, 2003, 2004 and 2005 and for the years ended December 31, 2003, 2004 and 2005, 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 27 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,				
	2001	2002	2003	2004	2005
	(U.S. Dollars in thousands, except percentages, ratios, and per common share data)				
INCOME STATEMENT DATA:					
IFRS:					
Interest income	US$ 694,772	US$ 531,874	US$ 548,285	US$ 542,842	US$ 612,432
Interest expense	(318,542)	(178,070)	(163,580)	(160,298)	(173,159)
Net interest income	376,230	353,804	384,705	382,544	439,273
Provision for loan losses (1)	(119,422)	(99,596)	(66,421)	(16,131)	6,356
Net interest income after provision for loan losses	256,808	254,208	318,284	366,413	445,629
Fees and commissions from banking services	155,030	177,305	189,472	201,474	206,163
Net gains (loss) from sales of securities	31,737	(1,097)	3,235	10,135	8,965
Net gains on foreign exchange transactions	17,549	22,582	23,681	24,165	29,286
Net premiums earned	112,204	125,218	125,115	192,672	218,955
Other income	12,530	11,651	23,227	8,105	21,571
Claims on insurance activities	(97,017)	(97,901)	(99,774)	(154,325)	(175,500)
Operating expenses	(390,779)	(404,186)	(430,373)	(459,928)	(477,073)
Merger costs	0	0	(18,587)	(3,742)	0
Income before translation result and income tax	98,062	87,780	134,280	184,969	277,996
Translation result	(2,575)	(2,482)	(3,675)	2,040	(9,597)
Income tax	(25,135)	(32,628)	(39,695)	(45,497)	(73,546)
Net income	70,352	52,670	90,910	141,512	194,853
Net income attributable to Credicorp s equity holders	54,513	42,383	80,607	130,747	181,885
Minority interests	15,839	10,287	10,303	10,765	12,968
Net income per Common Share attributable to Credicorp s equity holders(2)	0.68	0.53	1.01	1.64	2.28
Cash dividends declared per Common Share	0.40	0.30	0.40	0.80	1.10
U.S. GAAP:					
Net income	55,851	45,416	84,830	135,600	181,885
Net income per Common Share (2)	0.70	0.57	1.06	1.70	2.28
BALANCE SHEET DATA:					
IFRS:					
Total assets	7,581,841	8,629,631	8,321,783	9,087,560	11,029,647
Total loans (3)	4,064,479	4,817,663	4,481,496	4,559,018	4,972,975
Reserves for loan losses (1)	(344,433)	(424,031)	(326,677)	(271,873)	(218,636)
Total deposits	5,543,358	6,381,200	5,976,506	6,270,972	7,067,754
Equity attributable to Credicorp s equity holders	796,773	823,800	910,730	1,065,197	1,190,440
Minority interest	112,255	64,742	72,841	85,253	101,515
Shareholders equity	909,028	888,542	983,571	1,150,450	1,291,955
U.S. GAAP:					
Shareholders equity	796,773	826,833	917,986	1,077,306	1,202,549
SELECTED RATIOS:					
IFRS:					
Net interest margin (4)	5.28%	5.07%	5.15%	4.85%	4.90%
Return on average total assets (5)	0.72	0.52	0.95	1.50	1.81
Return on average equity attributable to Credicorp s equity holders (6)	6.90	5.23	9.27	13.55	16.39
Operating expenses as a percentage of net interest and non-interest income (7)	52.24	52.78	50.66	49.18	46.25
Operating expenses as a percentage of average assets	5.14	4.99	5.09	5.29	4.74

Shareholders equity as a percentage of period end total assets	10.51	9.56	10.98	11.72	10.79
Regulatory capital as a percentage of risk-weighted assets (8)	14.42	14.38	15.28	14.04	13.10
Total past due loan amounts as a percentage of total loans (9)	8.63	8.43	5.72	3.49	1.93
Reserves for loan losses as a percentage of total loans	8.47	8.80	7.29	5.96	3.97
Reserves for loan losses as a percentage of total loans and other contingent credits (10)	6.62	6.57	5.38	4.99	3.19
Reserves for loan losses as a percentage of total past due loans (11)	98.18	104.41	127.50	170.93	206.27
Reserves for loan losses as a percentage of substandard loans (12)	45.38	51.81	50.26	54.11	65.42

(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, 2005, 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 Credicorp) of 79.5 in 2001 and 79.8 million in 2002, 2003, 2004 and 2005. See Notes 15 and 21 to the Credicorp Consolidated Financial Statements.

(3) Net of unearned interest, but prior to reserve for loan losses. In addition to loans outstanding, Credicorp had contingent loans of US$715.6 million, US$956.9 million, US$782.9 million, US$889.1 million and US$1,220.9 million, as of December 31, 2001, 2002, 2003, 2004 and 2005, respectively. See Note 18 to the Credicorp Consolidated Financial Statements.

(4) Net interest income as a percentage of average interest-earning assets, computed as the average of period-beginning and period-ending balances on a quarterly basis.

(5) Net income as a percentage of average total assets, computed as the average of period-beginning and period-ending balances.

(6) 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.

(7) 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.

(8) 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.

(9) BCP considers loans past due after 15 days, except for installment loans, which include mortgage loans but excludes consumer loans, which are considered past due after 90 days. ASHC considers past due all overdue loans except for consumer loans, which are considered past due when the scheduled principal and/or interest payments are overdue for more than 90 days. See Item 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.

(10) Other contingent credits primarily consist of guarantees, stand-by letters and letters of credit. See Note 18 to the Credicorp Consolidated Financial Statements.

(11) 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.

(12) 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 the Loan Portfolio.

Exchange Rates

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 U.S. Dollars for the periods indicated.

Year ended December 31,	High(1)	Low(1)	Average(2)	Period-end(3)
	(Nominal Nuevos Soles per U.S. Dollar)			
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 (through June 9)	3.454	3.255	3.321	3.262

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.

	High(1)	Low(1)
	(Nominal Nuevos Soles per U.S. Dollar)	
2005		
December	3.440	3.407
2006		
January	3.454	3.310
February	3.311	3.281
March	3.368	3.312
April	3.377	3.305
May	3.305	3.257
June (through June 9)	3.269	3.255

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 9, 2006 was S/.3.261 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.

Peruvian Country Risk

Substantially all of BCP s and PPS s operations and customers are located in Perú. In addition, although ASHC is based outside of Perú, substantially all of its customers are located in Perú. Accordingly, the results of operations and the financial condition of Credicorp will be dependent on the level of economic activity in Perú. 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 Perú, including government-induced effects on inflation, devaluation and economic growth.

During the past several decades, Perú 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 Perú 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 Perú s moderate economic growth, the Toledo administration at times faced public unrest spurred by the high rates of unemployment, underemployment and poverty.

President Toledo will transfer the presidency to Alan Garcia Pérez on July 28, 2006 following Mr. Garcia s victory in the run-off of the presidential elections held on June 4, 2006. Mr. Garcia has sent positive signals to the international financial markets following his election as president, and it is expected that Mr. Garcia s government will substantially retain the economic policies of the previous government, although there can be no assurance that this will be the case. See Item 4. Information on the Company (B) Business Overview (9) Peruvian Government and Economy (i) Peruvian Government.

Exchange Controls and Devaluation of the Nuevo Sol

Even though Credicorp s financial statements are presented in 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. While the Peruvian government currently imposes no restrictions on a company s ability to transfer U.S. Dollars from Perú to other countries, to convert Peruvian currency into Dollars or to remit dividends abroad, Perú 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 Perú s foreign reserves compares favorably with those of other Latin American countries, there can be no assurance that Perú will be able to maintain adequate foreign reserves to meet its foreign currency-denominated obligations, or that Perú 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 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 segment 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.

Enforceability of Civil Liabilities

A significant majority of Credicorp s directors and officers reside outside the United States (principally in Perú). 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 it or its directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against it 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.

Status of Credicorp as a Holding Company

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.

Loan Portfolio Quality and Composition

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 Perú 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.

Bank Regulatory Matters

Credicorp is subject to extensive supervision and regulation through the SBS s consolidated supervision regulations, which oversees all of Credicorp s subsidiaries and offices including those located outside Perú. BCP s operations are supervised and regulated by the SBS and the *Banco Central de Reserva* (Central Bank). Perú 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.

Insurance Business and Regulation

Credicorp s insurance business, carried out by its subsidiary PPS, is subject to regulation by the SBS. Insurance regulation in Perú 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.

Increased Competition

Despite a recent decrease in interest from major international banks in the Latin American region, 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

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, 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 is a limited liability company incorporated in Bermuda in 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 Perú and Bolivia and with limited investments in other countries of the region. It conducts its financial services business exclusively through its subsidiaries. Credicorp s address is 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 Perú and is closely identified with its principal subsidiary, BCP, the country s largest bank and the leading supplier of integrated financial services in Perú. 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 services, asset management, and trust, custody and securitization services and proprietary trading and investment). As of December 31, 2005, Credicorp s total assets were US$11.0 billion and shareholders equity was US$1.3 billion. Its net income attributable to Credicorp s equity holders in 2004 and 2005 was US$130.7 million and US$181.9 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 segment as of and for the year ended December 31, 2005 (see Note 22 to the Credicorp Consolidated Financial Statements):

	As of and for the Year ended December 31, 2005					
	Total Revenues		Operating Income		Total Assets	
	(U.S. Dollars in millions)					
Commercial Banking	US$	712	US$	400	US$	9,888
Insurance		219		80		786
Investment Banking		166		3		356
Credicorp	US$	1,097	US$	483	US$	11,030

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), and ASHC, a diversified financial services company. 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 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 Perú, 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 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.

The following tables show the organization of Credicorp and its principal subsidiaries as of December 31, 2005 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, 2005(2)			
	Total Assets	Total Revenue	Net Income (Loss)	Shareholders Equity
Banco de Crédito del Perú	80.8%	68.2%	90.4%	70.3%
Atlantic Security Holding Corporation	9.1%	2.2%	6.6%	8.2%
El Pacífico-Peruano Suiza Compañía de Seguros y Reaseguros	7.0%	29.0%	5.7%	15.7%
Grupo Crédito (3)	0.6%	0.4%	-2.7%	5.5%
Others(4)	2.4%	0.2%	-0.1%	0.3%

(1) Includes the equity interest held by PPS.
(2) Percentages determined based on the Credicorp Consolidated Financial Statements.
(3) Includes Prima AFP, and others.
(4) Includes Credicorp Securities Inc., and others.

The following tables show the organization of BCP and its principal subsidiaries as of December 31, 2005:

	As of and for the Year ended December 31, 2005(2)			
	Total Assets	**Total Revenue**	**Net Income (Loss)**	**Shareholders Equity**
Banco de Crédito del Perú	90.8%	89.7%	88.8%	84.9%
Banco de Crédito de Bolivia	6.1%	6.2%	4.5%	6.9%
Crédito Leasing S.A.	2.4%	2.2%	2.1%	2.0%
Credifondo S.A.	0.2%	1.2%	2.1%	1.6%
Credibolsa Sociedad Agente de Bolsa S.A.	0.1%	0.6%	1.0%	0.5%
Others(3)	0.4%	0.1%	2.2%	4.1%

(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, 2005.

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

(B) Business Overview

(1) Introduction Review of 2005

Credicorp s results for 2005 maintained their positive trend from the three 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.

The increase in net income in 2005 generated by Credicorp s banking business offset the decrease in net income from its insurance business and losses resulting from the start-up of Prima AFP s operations. Credicorp s ability to successfully apply cost-control policies also contributed to its positive results in 2005 by reducing overall expenses despite an increase in personnel expenses. As a result, Credicorp achieved strong growth in 2005 while maintaining a solid balance sheet, a high quality portfolio and a strong capital position, constituting a sound platform for future expansion.

In 2005, Credicorp reached unprecedented consolidated net income attributable to Credicorp s equity holders of US$181.9 million, representing a 39% increase from US$ 130.7 million in 2004 and resulting in a return on average equity attributable to Credicorp s equity holders of 16.4% in 2005 (13.6% in 2004) and earnings per share of US$2.28 in 2005 (US$ 1.64 in 2004). The improvement in Credicorp s results in 2005 was mainly driven by Credicorp s expansion strategy for its banking business. During 2005, Credicorp 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 and a sustained strengthening of revenues from banking services and lower provisions for loans, which in 2005 became a source of revenue due to recoveries of written-off loans made in previous years.

Credicorp s total assets and asset quality improved substantially in 2005. Total assets reached US$11.0 billion as of December 31, 2005, a 21.4% increase from US$9.1 billion as of December 31, 2004. While total loans grew by 9.2% in 2005, increased liquidity led to an increase in investments of 29.5% in the same period. Provision for loan losses net of recoveries resulted in earnings of US$6.4 million in 2005, opposite to losses of US$16.1 million in 2004, due to better quality of the loan portfolio. For the fourth consecutive year, past due loans decreased to 1.9% of the total loan portfolio at year-end 2005 from 3.5% at year-end 2004, while past due loan coverage by provisions increased significantly to 206.3% at year-end 2005 from 170.9% at year-end 2004.

BCP s consolidated net income attributable to Credicorp in 2005 reached US$176.5 million, a 58.4% increase from consolidated net income attributable to Credicorp of US$111.4 million in 2004. The resulting return on average equity reached 22.9% in 2005, the highest such return since 1996. The increase in consolidated net income was mainly due to an increase in net interest income, commissions from retail banking services and lower provisions for loans.

Net interest income increased by 22.3% in 2005 due to growth in the loan portfolio, particularly during the second half of 2005, following a period of decreases or limited growth in previous years. In 2005, Retail Banking experienced the largest increase in loans and was the most significant contributor to BCP s consolidated net income, contributing approximately 50.0%. All types of retail banking loans increased in 2005 as compared to 2004, with home mortgage loans increasing by 27.8%, consumer loans increasing by 29.0% and loans to small and micro-businesses increasing by 26.9%.

Revenues from commissions from retail banking services increased by 11.2% in 2005 due to the increase in the number and volume of retail banking transactions. In recent years, BCP has focused on expanding in the retail banking segment and expects that this segment will continue to be one of the market s most dynamic segments in the near future as major portions of the population are incorporated into the financial system.

To promote the growth of business with small companies and individuals, BCP continued to enhance its distribution channels in 2005. In addition to restoring 300 ATMs and adding 50 new ATMs to its network, BCP opened 9 offices, most of them in areas with low bank penetration rates. With the same goal in mind, BCP launched in 2005 a new customer service channel called ViaBCP Agents. These consist of points-of-service located within commercial facilities and serviced by the owner of such facilities where a limited number and value of transactions can take place. ViaBCP Agents are a cost-effective and efficient option for expanding BCP s customer service network in areas where the number of transactions is limited. During 2005, BCP installed 61 ViaBCP Agents and expects that this number will reach 300 by the end of 2006.

BCB continued to report positive results becoming an increasingly important source of revenues, notwithstanding political, social and economic instability in Bolivia in 2005. BCB s net income increased to US$10.2 million in 2005 from US$4.8 million in 2004, resulting in a return on average equity of 16.8%, the highest such return since the start of Credicorp s Bolivian operations. This increase in net income was mainly due to higher net interest income, a significant increase in commissions from retail banking services and improvements in credit risk evaluation which in turn resulted in BCB not taking any provisions for loans. In addition, BCB s operating expenses increased only slightly in 2005 in light of business growth.

BCB s total assets increased by 25% to US$570.7 million in 2005 from US$457.4 million in 2004, total loans increased by 8% to US$346.6 million in 2005 from US$320.8 million in 2004 and deposits increased by 29% to US$430.9 million in 2005 from US$333.1 million in 2004. This increase in the volume of transactions was in line with the significant improvement in the quality of assets. The past due portfolio fell to 5.7% of BCB s total loan portfolio in 2005 from 11.0% in 2004, while past due loan coverage by provisions grew to 129.9% in 2005 from 100.6% in 2004.

ASHC s net income increased by 31.5% to US$25.2 million in 2005 from US$19.1 million in 2004. This increase was mainly due to higher revenues from dividends due to strong Credicorp dividend payments in 2005 and commissions combined with lower operational expenses. ASHC s revenues from Credicorp dividend payments, however, are not included in Credicorp s consolidated results, and, consequently, ASHC s contribution to Credicorp s consolidated results remained relatively stable at US$13.5 million in 2005 compared to US$13.3 million in 2004. Total managed funds, deposits and assets under management were US$2.0 billion in 2005, a 35.1 % increase from US$1.4 billion in 2004, with approximately 50.0% of such funds, deposits and assets under management consisting of third-party funds which are managed with a lower risk to ASHC.

In Credicorp s insurance business, PPS s contribution attributable to Credicorp s equity holders decreased by 41.7% in 2005 to US$5.6 million from US$9.6 million in 2004. This decrease was mainly due to stronger competition in all business lines and an increase in marine hull and health insurance claims.

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 with a more diverse product offering than its competitors in the private pension fund administration market, which has so far been characterized by the dominance of a few highly concentrated competitors. After launching its operations, Prima AFP has gradually expanded its sales force to build an 800-member staff with offices in Lima, Chiclayo, Piura, Trujillo and Arequipa. Prima AFP recorded 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.

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	Variation
	(U.S. Dollars in millions,, except percentages)		
BCP(1)	111.4	176.5	58.4%
ASCH	13.3	13.5	1.5%
PPS	9.6	5.6	-41.7%
Grupo Crédito (2)	-3.6	-13.7	
Total	130.7	181.9	39.2%

(1) Includes Banco de Crédito de Bolivia, which contributed US$10.2 million in 2005 and U.S.$4.8 million in 2004.
(2) Includes Prima AFP (which recorded a loss of US$7.6 million in 2005), Credicorp Securities and others.

(2) Strategy

During 2006 Credicorp intends to continue with its key business strategies implemented in 2005, and intends to focus its initiatives on:

- increasing profitability;
- maintaining the highest quality of customer service;
- improving efficiency through reductions in operating costs and more aggressive use of electronic channels;
- diversifying the client base by developing under-banked segments, which involve small companies and low-income individuals, through specially tailored loans, cash management services and transactional products;
- increasing funds under management through focus on wealth management services;
- reducing net income volatility and further strengthening the balance sheet;
- enforcing a sound operating risk, interest rate risk and credit risk management policy
- reducing the rate of claims in the insurance business and recovering the leadership in the insurance market; and
- limiting international expansion.

In 2006, BCP will continue its strategy of increasing lending in the retail banking segment, which continues to show a high growth rate but is also an area where competition from various financial and non-financial credit providers has intensified. In past years, growth in this segment has offset declining loans to large corporate customers. Although growth is expected in all segments of the banking business, BCP will focus in the retail banking segment, where low banking penetration offers ample development opportunities. Credicorp expects to attain greater customer loyalty through lower and simpler commissions in savings deposits. In line with this strategy, BCP launched in January 2006 two new savings accounts designed to significantly reduce maintenance and other fees in order to reach a broader segment of the population.

In 2005, BCP continued its strategy to expand its branch network, with new offices located in under-banked districts of the city of Lima, where high demand for banking services is expected. In 2006, BCP will continue to target new clients for both its transactional and retail business services by expanding its branch network, ATM network and consolidating its ViaBCP Agents customer service initiative. In 2006, BCP will also continue to focus on serving emerging areas of the principal urban centers in Peru as well as on lending to small and micro-businesses, which are segments that are expected to continue to grow at 20% average rates.

Although the loan and risk assets volume has shown limited growth in recent years, the number of banking transactions has increased significantly, a trend that supports BCP s strategy of focusing on developing transactional business services for which fees are charged. Fees on banking services generate stable, diversified and low risk revenues that complement net interest income.

In 2006, ASHC will continue its strategy of concentrating its investment portfolio in low risk investments to reduce exposure to market volatility while sustaining growth in the management of third-party funds. ASHC expects to improve client service through improved international investment products, which will span a wider risk and return offer.

Credicorp expects its insurance business, carried out by its subsidiary PPS, to further increase its profitability in 2006 through increased premiums in its health and life insurance business lines and as a result of lower insurance claims compared to 2005. PPS is currently improving its organizational structure and identifying opportunities for all of its business lines with the aim of recovering market share to become a leader in the insurance market.

In 2006, BCB will focus on consistently applying corporate guidelines, consolidating changes in its organizational structure and improving credit management and portfolio quality. BCB s profitability is expected to improve through increased mortgage loans, lending to small and micro-businesses and service fee income. BCB s profitability may be negatively affected, however, by political, social or economic instability in Bolivia resulting from the policies of the new Bolivian government.

In August 2005, Prima AFP started operations with a more diverse product offering than its competitors in the private pension fund administration market, which has so far been characterized by the dominance of a few highly concentrated competitors. Credicorp believes that it has competitive advantages in the private pension fund administration market, given its knowledge of the market and of its client base, and due to its financial strength, credibility and quality of service. Management expects Prima AFP to start generating profits in 2007.

(3) Credicorp Operating Units

Credicorp conducts its business operations through four different principal subsidiaries: BCP and subsidiaries (which include BCB), Atlantic Security Holding Corporation, Pacífico Peruano Suiza and Grupo Crédito (which includes Prima AFP).

The majority of Credicorp s commercial banking business is carried out through BCP, Credicorp s largest subsidiary and oldest bank in Perú. A portion of Credicorp s commercial banking business is also carried out by ASHC, which principally serves Peruvian private banking customers through offices in Panama. Credicorp conducts commercial banking activities in Bolivia through BCB, a full service commercial bank with, as of December 31, 2005, US$430.9 million in deposits, US$570.7 million in assets and US$346.6 million in loans. As of December 31, 2005, BCB was the fourth largest Bolivian bank in terms of loans, with a 13.4% market share, and the fourth largest in terms of deposits, with a 14.9% market share. Credicorp s commercial banking business is organized into wholesale banking activities, which are carried out by BCP s Wholesale Banking division (which includes the Corporate Banking operations of ASHC) and retail banking activities, which are carried out by BCP s Retail Banking division. Credicorp performs its leasing operations either directly through BCP or through Crédito Leasing S.A. (Credileasing), a subsidiary of BCP.

Credicorp applies uniform credit policies and approval and review procedures, which are based on conservative criteria adopted by BCP, to all of its subsidiaries. Credicorp s General Manager is in charge of setting the general credit policies for the different business areas of Credicorp. These policies are set within the guidelines established by Peruvian financial sector laws and SBS regulations (see (11) Supervision and Regulation (ii) BCP), and the guidelines set forth by Credicorp s Board of Directors.

Credicorp s deposit-taking operations are principally managed by BCP s Retail Banking division and ASHC s Private Banking division. See (12) Selected Statistical Information (iv) Deposits.

The majority of Credicorp s trading and brokerage activities are conducted through BCP, ASHC and, since January 2003, through Credicorp Securities Inc. (Credicorp Securities), a wholly-owned subsidiary of Credicorp. Credicorp Securities is a U.S. registered broker-dealer with its offices in Miami. Credicorp s asset management business is carried out by BCP in Perú, through Credifondo subsidiary, and by Prima AFP. Credicorp s asset management is also carried, to a lesser extent, by BCB in Bolivia and by ASHC.

Credicorp offers investment banking 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 Perú. In addition, Credicorp also distributes such products through ASHC.

Credicorp conducts its insurance operations exclusively through PPS and its subsidiaries, which provides a broad range of insurance products. PPS focuses on three business areas, i.e. general insurance through Pacífico Seguros, life and pension insurance through Pacífico Vida, and health care insurance through Pacífico Salud EPS. PPS, like other major Peruvian insurance companies, sells its products both directly and through independent brokers and agents. Directly written policies tend to be for large commercial clients, as well as for life and health insurance lines.

Credicorp is attempting to expand PPS s sales network, which currently has 20 offices throughout Perú, by selling certain insurance products through BCP s branch network. PPS offers, in collaboration with BCP, a life and health insurance product called Segurimax as well as a personal life insurance product that combines accidental death coverage with renewable term life insurance.

(4) BCP and Subsidiaries

BCP s activities include commercial banking, investment banking and retail banking. As of December 31, 2005, BCP ranked first among Peruvian banks in terms of total assets of S/.31.5 billion (US$9.2 billion), total loans of S/.16.7 billion (US$4.9 billion), deposits of S/.22.9 billion (US$6.7 billion) and shareholders equity of S/.2.8 billion (US$814 million). As of December 31, 2005, BCP s loans represented approximately 32.1% and the deposits approximately 34.4% of the total Peruvian banking system, respectively.

As of December 31, 2005, BCP had the largest branch network of any commercial bank in Peru with 218 offices, including 133 in Lima and the adjoining city of Callao. BCP operates an agency in Miami and a branch in Panama.

As of December 31, 2005, BCP accounted for 68.2% of Credicorp s total revenues, 80.8% of total assets, 90.4% of net income and 70.3% of shareholders equity. BCP s operations are supervised and regulated by the SBS and the Central Bank.

Subsidiaries

BCP s corporate structure consists of a group of local subsidiaries offering specialized financial services, which complement BCP s commercial banking activities. In addition to its local subsidiaries, BCP has an agency in Miami and a branch in Panama, one subsidiary in Bolivia and an affiliate bank, Atlantic Security Bank, in the Cayman Islands.

BCP and its principal subsidiaries as of December 31, 2005 are as follows:

Banco de Crédito de Bolivia is BCP s commercial bank in Bolivia. BCP owns 96% of BCB and Credicorp holds the remaining interest. BCB initiated operations under the BCP umbrella in February 1994. In July 1998, BCB absorbed Banco de la Paz s operations for US$140 million, making BCB the fourth largest bank in Bolivia. In May 1999, BCB acquired the portfolio of Banco Boliviano Americano for US$116 million and became Bolivia s second largest bank. Currently BCB is the fourth largest bank in Bolivia in terms of market share and has a network of 46 branches, with over 17 correspondent offices located throughout Bolivia. BCB owns one of Bolivia s largest brokerage houses, Credibolsa S.A. Agente de Bolsa. BCP targets middle and small-sized clients and offers a broad range of corporate, personal banking and leasing products. Credicorp s total direct and indirect investment in Bolivia is currently delimited to be US$56 million. BCB s results are consolidated in BCP s financial statements.

Credibolsa Sociedad Agente de Bolsa (Credibolsa) was established in June 1991 and is fully owned by BCP. It is engaged in portfolio advisory and brokerage activities in the Lima Stock Exchange.

Credileasing offers a large variety of financial leasing products. CL was established in July 1996 and is 100% owned by BCP.

Credifondo Sociedad Administradora de Fondos Mutuos (Credifondo) is a mutual fund management company, established in 1994.

Creditítulos (Creditítulos) was established in 1997 and is fully owned by BCP. The company serves as an asset securitization entity.

Inmobiliaria BCP is the real estate subsidiary of BCP. This subsidiary was created to manage and promote the sale of real estate that had been foreclosed or received in payment by BCP.

(i) Wholesale Banking Division

The Wholesale Banking division has traditionally represented the majority of BCP s loans.

BCP s Wholesale Banking division competes with local and foreign banks. BCP s traditional relationships provide the Wholesale Banking division with a competitive advantage.

The Wholesale Banking division has traditionally generated the majority of BCP s loans. BCP estimates that the Wholesale Banking division has extended approximately 58% of its loans as of December 31, 2005. BCP has the largest capital base of any Peruvian bank, which provides it with more resources than any other Peruvian bank to meet the financing needs of its corporate clients. Since Peruvian companies were not able to access international sources of credit until the mid-1990 s, BCP has established longstanding client relationships with virtually all of the major industrial and commercial groups in Peru. The 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 the following units:

Corporate Banking, which provides loans and other credit services to companies with annual revenues in excess of US$15 million,

Middle Market Banking, which serves mid-sized companies, International Trade Finance, which manages BCP s relationship with financial institutions abroad,

Corporate Finance, which provides underwriting and financial advisory services to corporate and middle market clients,

Business Finance, which finances business projects and manages the financial leasing product,

Institutional Banking, which focuses principally on serving non-profit organizations, state-owned companies and other major institutions; and

Business Services, which develops transactional services.

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

Corporate Banking

The Corporate Banking unit has been the traditional strength of BCP s lending activities, 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 the country because of its strong capital base and relative size compared to other Peruvian banks. BCP s Corporate Banking unit primarily provides its customers with local and foreign currency loans and has a primary responsibility for maintaining relationships with the largest banking clients. In addition, BCP s Corporate Banking unit provides services including letters of credit, standby letters of credit, domestic collections, nationwide fund transfers, payments through BCP s Miami agency, and foreign exchange facilities. BCP has a corporate banking client base of approximately 1,000 companies.

According to BCP s internal reports, loans provided by the Corporate Banking unit represent 34% of BCP s total loans in 2005. The composition of these loans was approximately 67% foreign currency-denominated (primarily U.S. Dollar-denominated) and 33% Nuevo Sol-denominated. During 2005, corporate loans continued their declining margins due to excess liquidity and the competition from financing through capital market issues, which was partly offset by the increase in local currency lending, which has higher rates and spreads.

Client Profile: The Corporate Banking unit is focused on serving large-sized companies with annual turnover over US$15 million, dominant market positions as per particular products or brands, and audited financial statements. BCP may classify other firms under this category if they belong to the most important economic groups in terms of size and economic importance in the country, even if they don t meet the above criteria.

Products: The Corporate Banking unit offers a broad range of products and tailors its product offerings to meet the unique requirements of each client. In general, this unit is oriented to offering high-value-added products and services, particularly cash management services, at competitive prices.

The majority of financings are provided to fund sales, international trade and inventories. In general, the Corporate Banking unit grants short-term financing; however, it can provide longer terms for companies financing capital expenditures, fixed assets, among other purposes. The unit also offers term financing (in all cases backed by real guarantees), financial leasing, factoring, and domestic collections and nationwide fund transfers.

Additionally, Corporate Banking clients can obtain investment banking, advisory, and financing services through the Corporate Finance unit, which operates as part of the Wholesale Banking division and also serves major middle market clients.

Guarantees received by this unit consist of receivables in the case of sales financing, warrants or pledges on inventory in the case of inventory financing, and real guarantees in the case of financing for fixed asset acquisitions and improvements to their infrastructure.

There is a limited growth prospect in this business due to high market penetration and competition from capital market in loans.

Middle Market Banking

BCP s Middle Market banking unit generally serves the same industries and offers the same products as the Corporate Banking unit. Its focus, however, is on providing its customers with working capital loans, primarily secured by accounts receivables. This is accomplished by arranging financing for medium and long-term investment programs, including leasing services offered through Credileasing. BCP has a middle market client portfolio of approximately 4,200 companies.

According to BCP s internal reports, the loan portfolio of the Middle Market Banking unit of BCP increased to US$1.2 billion in 2005 from US$1.1 billion in 2004, which in turn increased from US$1.0 billion in 2003, while stringent credit quality requirements continued to be enforced. BCP expects that this sector will grow and increase in relative importance as the Peruvian economy grows.

BCP expects significant opportunities in lending to middle market businesses, particularly in Peru s agriculture, fishing and construction industries, where special emphasis has been placed and specific task units have been created to attend to the needs of these economic groups.

BCP s medium-term financing products, which include structured loans, project financing and syndicated transactions, are designed to accommodate specific clients needs. Through these products, BCP has been an active lender and financial advisor to Peru s mining, technology and energy sectors. In addition to its regular sources of funds, BCP is an intermediary of Corporación Financiera de Desarrollo (Development Finance Corporation or COFIDE , a second-floor bank fully owned by the State of Peru) and such international financial institutions as Corporación Andina de Fomento (Andean Development Corporation or CAF), the International Finance Corporation (IFC) and the Inter-American Development Bank, in several medium-term credit lines for project financings in certain sectors.

Financial margins in the Middle Market Banking unit 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, BCP believes that middle market companies have benefited significantly from the overall economic improvements in Peru over the past few years. Loan quality problems have been addressed through procedures and organizational changes that have focused on improving the loan approval and credit-risk assessment processes.

The Middle Market Banking unit focuses on organizations with annual revenue levels between US$1 million to US$15 million, through 7 regional managers nationwide. Generally these clients are not listed on the stock exchange but in some cases are capable of issuing financial obligations or commercial paper. Their financial information is reliable and audited. These companies are typically family-controlled but professionally managed.

The products offered to middle market clients resemble those offered to corporate banking clients. The three major types of products are:

- Revolving credit lines to finance inventories and sales, as well as stand-by letters of credit and international trade financing,
- Financing for short-term requirements such as current account credits and temporary account advances (overdrafts), and
- Financing for medium and long-term requirements using intermediation resources (term deposits), and various types of financial leasing financing.

The Middle Market Banking unit requires that all facilities granted to middle market clients be guaranteed by the main shareholders and their respective spouses. In addition, these clients are usually required to grant real guarantees of assets unrelated to the business, such as real estate owned by the shareholders.

Institutional Banking

BCP s Institutional Banking unit was moved from the Retail Banking division to the Wholesale Banking division in 2004, since most of its clients have a significant volume. This unit serves non-profit organizations, whether public or private, including approximately 4,800 state and local government entities, international bodies, educational institutions and non-governmental organizations among others. The client base has grown significantly since 2002 due to a market re-segmentation effort. Specialized teams in both the Wholesale Banking and Retail Banking divisions serve these clients.

The Institutional Banking unit is strategically important due to the business potential of its clients, which demand diverse products and services, and the opportunities its clients present for generating income from fees and cross selling opportunities. The institutional banking unit s clients are principally users of transactional products and require consultancy for investment management. BCP s strategy in this segment is focused on building customer loyalty by offering customized services at relatively competitive rates and provides outstanding service quality. The institutional banking clients mainly require remote office banking, collections and automated payroll payment services.

International Trade Finance

BCP s International Trade Finance unit is focused primarily on providing short-term credit for international trade, funded with internal resources or with credit lines from foreign banks and institutions. Medium-term lines of credit funded by international commercial banks and other countries governmental institutions are also provided. In addition, the International Trade Finance unit earns fees by providing customers with letters of credit, international collections and providing foreign exchange services to clients. The International Trade Finance unit also promotes international trade activities by structuring Peruvian overseas commercial missions and introducing Peruvian businesses to potential foreign clients and vice versa. As of December 2005, BCP financed 39.6% and 29.3% of total Peruvian imports and exports, respectively.

BCP maintains business relations with over 1,000 correspondent banks, development organizations, multilateral financial organizations, and Export Credit Agencies in countries around the world. At present, BCP manages credit lines for foreign trade transactions, working capital, and medium and long-term investment projects. Although these credit lines are largely underutilized given BCP s strong liquidity position, they remain available should dollar liquidity undergo a correction or demand for dollar-denominated loans increase.

Against a backdrop of high liquidity, BCP had to enter other regional markets to increase returns, in particular Ecuador, where approximately US$23.4 million was placed in 2004, 8.5% more than in 2003 and US$30 million during 2005. These loans were granted to companies enjoying the soundest creditworthiness ratings, and in strict compliance with country risk guidelines. In addition, some inroads were made in the Chilean market despite thin margins.

According to the Peruvian Central Bank, in 2005 Peruvian exports increased 36.7% to US$17.2 billion from US$12.6 billion in 2004, principally due to increased exports of mining products and of manufactured goods. During the same year and based on BCP s internal report, BCP s export payment orders volume increased 11.7% to US$5.7 billion, amounting to 33.7% of total Peruvian exports (41.3% in 2004). Total Peruvian imports were US$12.1 billion in 2005, increasing 23.1% from US$9.8 billion in 2004, principally due to higher demand for capital goods and raw materials. BCP s import letters of credit, collections and transfers amounted to US$2.8 billion in 2005, increasing from US$2.3 billion in 2004.

BCP has a direct presence abroad through its agency in Miami and its branch in Panama, and has access to a wide network of foreign correspondent banks to offer several internationally competitive products to its customers.

BCP has correspondent banking relationships and uncommitted credit lines with more than 80 banks for foreign trade operations, financing of working capital and medium and long-term investment projects. During 2004, BCP s significant surplus of liquidity allowed it to maintain a very low use of foreign lines of credit.

Lastly, to benefit from synergies in the correspondent banks business, the International Trade Finance unit now manages business with government financial organizations that were formerly comprised in the Institutional Banking client portfolio and the local Financial Institutions industry.

Corporate Finance

BCP s Corporate Finance unit 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 unit was incorporated into BCP s Wholesale Banking division in the first quarter of 1996 in order to enhance its effectiveness as the demands of Peru s larger corporations move away from loan-based operations toward capital markets-based operations. This unit focuses on the capital markets, primarily debt and equity issues, project financing, corporate financing, financial restructurings and mergers and acquisitions.

Based upon BCP s internal records, in 2005, BCP s share of the market for structuring fixed-income instruments decreased to 33% from 43% in the previous year. Private debt placements, after increasing 55% in 2003, to US$1.5 billion, declined 15% in 2004 to US$1.2 billion and increase in 2005 to US$1.5 billion. The Corporate Finance unit had a significant role in the placement of the TGP (Transportadora de Gas del Perú S.A.) bonds for US$80 million and Hunt Oil structured bonds for US$150 million.

In operations related to project financing and structured loans according to its internal reports, BCP s corporate finance unit structured transactions during 2005 worth a total of US$223 million, of which BCP participated in US$135 million. Funding for important Peruvian companies spanned different sectors such as electricity generation, mining, oil and gas, and for the municipality of the city of Lima. Important transactions included the financing of Empresa de Generación Termoeléctrica Ventanilla S.A. Etevensa for US$35 million, Minera Barrick Misquichilca S.A. for US$30 million, and Energía del Sur S.A. Enersur for US$27.5 million.

Additionally, the Corporate Finance unit structures short-term instruments, mostly commercial paper and certificates of deposit, and offers financial consultancy services focused on restructuring debt, appraisals and evaluations of payment capacity for companies from several sectors, such as paper, manufacturing, sugar, food, real estate and construction.

Leasing

Leasing offers and manages financial leasing operations. It also carries out medium-term operations, principally for small and medium-sized companies. BCP is the leader with a market share of 40.6% of total leasing.

BCP s management estimates that BCP s lease finance business is currently the largest in Peru, with a market share of approximately 38% as of December 31, 2005. The principal means of financing for Credileasing is through the issuance of specific leasing bonds, of which a total of S/.539.1 million (US$157.2 million) were outstanding as of December 31, 2005. According to SBS, Credileasing s market share among specialized leasing companies was 54% as of December 31, 2005.

The financial leasing business continued its recovery during 2005. BCP s leasing loan balances showed a 31.4% growth in 2005, after being affected in prior years by declining market demand due to the co-existence of two tax systems applicable to leasing operations, which put BCP at a disadvantage in relation to certain competing banks, but which were unified in 2003.

Growth during 2005 was driven by business loans in sectors requiring natural gas produced in the Camisea fields, energy and manufacturing. Energy generation and manufacturing companies invested in the conversion of their equipment and processes to use natural gas as their primary energy source. Loan demand also increased in the fishing and telecommunications sectors.

Business Services

BCP s Business Services unit is in charge of developing transactional services that handle the exchange of information and money transfers to corporations, midsize companies, institutions and micro-business companies. This unit is responsible for both the development and marketing of transactional, or cash management, services for BCP s corporate and institutional clients. More than 30 product groups are offered, aiming at strengthening ties with clients, assuring their loyalty and reciprocity in the business carried out with BCP, as well as reducing costs using electronic channels and increasing fee income.

Services managed by the Business Services unit include collections (automated trade bill collection and electronic factoring), automated payments (direct credits to personnel and suppliers accounts and money transfers), electronic office banking and cash management through checking accounts with special features.

In 2005, BCP continued its efforts to increase revenue from transactional services, primarily through the improvement of the operating efficiency of the office banking service, Telecrédito. According to BCP s internal reports, the transaction volume in the office banking service continued to grow in 2005 (19% compared to 67% in 2004) and fee revenue continued to increase (13%). In 2005, revenue from fees on money transfers received from other countries grew by 15% and transaction volume increased 40% (23% and 13% respectively in 2004). Approximately 1,200 entities, mainly public utilities, municipalities and insurance companies, among others, use BCP s automated bill payment service, which processed an average of 900,000 payments per month during 2005.

(ii) Retail Banking Division

According to BCP s internal reports, retail banking-related loans accounted for approximately 35.5% of BCP s total loans in 2005 compared to 32.5% in 2004 and 30.3% in 2002.

After several years of declining loan volumes of BCP s retail units, volumes grew in 2002, particularly in loans to small businesses and home mortgages, but decreased again in 2003, and had a modest 4.4% increase in 2004, according to BCP s internal records. Nevertheless, within retail lending, home mortgages and micro-business loans continued to show strong growth in 2004 and 2005. In 2005, home mortgages grew approximately 31% to US$750 million, while micro-business loans grew approximately 46% to US$240 million.

With the segmentation of its retail client base, BCP is able to focus on the cross-selling of products and on improving per-client profitability. BCP s management expects the retail banking businesses to be one of the principal growth areas for BCP s lending activities.

BCP s retail banking targets and serves individuals and small-size companies with annual income levels of up to US$1 million. BCP s objective is to establish profitable long-term relationships with this broad client base, using segmentation strategies that satisfy the specific needs of each client type. BCP s retail banking operations are carried out by two divisions: Service Banking and Retail Banking.

See (iii) Service Banking. The Retail Banking division is subdivided further into four units in order to serve each client segment appropriately. These four units include Exclusive Banking, Small Business Banking, Micro Business Banking and Consumer Banking. The Retail Banking division manages BCP s mortgages and credit cards products.

Exclusive Banking

Exclusive Banking is BCP s private banking area, and manages a select number of individual customers who are key to BCP because of the high volume of loan and deposit business they generate, and their attractive profitability.

The Exclusive Banking unit principally serves a select number of high-income customers with the most profitable personal accounts and specializes in offering personalized service. BCP s Exclusive Banking unit serves a client base of high net worth individuals with an outstanding credit history. It serves households that have at least US$10,000 in loans and/or US$20,000 in deposits. Exclusive Banking is a profitable segment and generates a high volume of business.

Through Exclusive Banking, BCP provides a preferential and differentiated service, offering both traditional and innovative products to its clients. BCP considers the Exclusive Banking client base to be of strategic importance to BCP. Clients within this segment are considered exclusive and receive personal service from an executive of Exclusive Banking.

BCP s management believes that in 2005 the Exclusive Banking unit continued to retain and increase ties with its customers, as well as to add new ones, for which sophisticated commercial plans were developed. This segment has approximately 58,280 customers, with total deposits of US$1.2 billion and US$704 million in loans. Belonging to this segment gives customers the advantage of preferential interest rates for loans and deposits and personalized service through an assigned official. Beginning in 2004, Exclusive Banking customers were advised of saving alternatives using capital markets products, including investments in mutual funds, given the continuing low levels of interest rates paid on banking deposits.

Small Business Banking and Micro Business Banking

BCP s Small Business Banking unit serves approximately 10,000 clients who have annual sales between US$300,000 and US$1 million. In 2004, this unit experienced some adjustments following the merger with Solución. This divided the portfolio between large clients, which were kept in Small Business Banking and the smaller clients, which were incorporated into the portfolio coming from Solución, currently part of Micro Business Banking. These businesses benefit from products specially designed for their needs, such as the Cash Credit for Businesses, a revolving credit line repaid in installments, as well as the usual credit products: discounted notes, letters of credit, guarantees and stand-by credits.

According to BCP s internal reports, the Small Business Banking loan portfolio grew from US$158.4 million in 2004 to US$211.4 million in 2005 (without considering contingent facilities). In terms of deposits, this segment increased deposits from US$260.5 million to US$349.8 million.

BCP s Micro-Business Banking unit concentrates its efforts in small loans to individuals who primarily derive their income from small family-run businesses. This unit deals with business resulting from the Solución merger, together with the smallest clients from the Small Business Banking unit. In spite of its high informality and high creditworthiness risk, this segment shows one of the most attractive growth and bank penetration potentials, which has driven BCP to work towards its development in two fronts: (i) client training programs through seminars and presentations and (ii) formalization programs based upon alliances with government institutions such as Prompyme, Ministry of Labor and Social Promotion, Municipalities and the Peruvian Center for the Promotion of Small Business. BCP s loans to micro-businesses as of December 31, 2005 amounted to US$240 million, representing a 46% increase from 2004.

Consumer Banking

Consumer Banking is in charge of servicing BCP s traditional retail client base, and is also in charge of mortgage lending and credit cards. BCP s Consumer Banking unit targets and serves medium to low-income individuals. BCP estimates that its Consumer Banking client base consists of approximately 1,700,000 households.

The Consumer Banking unit offers standard service platforms including bank tellers and ATMs and services, which fit the characteristics and financial habits of this client base. Consumer lending products offered include cash consumer loans, payroll loans and loans for specific purposes such us automobile purchases, travel and education

Mortgage Lending

BCP was the largest mortgage lender in Peru with a market share of 39% of total mortgage loans in the Peruvian banking system as of December 31, 2005. This was, to a large extent, the result of extensive marketing campaigns and improvements in the quality of procedures for extending credit and establishing guarantees.

BCP expects mortgage lending business to continue to grow given the low levels of penetration in the financial market, the increasing demand for housing, the availability of funds for the Peruvian government s MiVivienda low-income housing program, and the current economic outlook for controlled inflation and economic growth in Peru. BCP believes that it has been able to become the largest issuer of MiVivienda credits, increasing its market share of outstanding loans from 6% in 2002 to 28% in 2005, according to Asociación de Bancos del Perú (ASBANC).

BCP had US$750 million of outstanding mortgage loans as of December 31, 2005 compared to US$575 million for year end 2004. Additionally, BCB s mortgage loans reached US$98.7 million as of December 31, 2005, representing 20.2% of the Bolivian mortgage loans at such date.

Mortgage financing is available only to customers with minimum monthly income of above US$900 in the case of the traditional mortgage loan and US$400 in the case of the MiVivienda program. The MiVivienda program, however, limits the value of the house to be purchased to US$30,000. BCP will finance up to 75% of the appraised value of a property where monthly mortgage payments do not exceed 30% of the client s stable net income. The maximum maturity of the mortgage loans BCP offers is 25 years in U.S. dollars and up to 20 years in local currency. Within the mortgage lending business, BCP offers variable, fixed and Libor-based interest rates on home mortgage loans denominated in both U.S. Dollars and Nuevos Soles; however, BCP s mortgage portfolio is predominantly variable rate and U.S. Dollar-denominated.

Credit Cards

The market for credit cards in Peru has grown significantly as improving economic conditions have led to increased consumer spending. BCP expects strong demand for credit cards to continue. In addition to interest income, BCP derives fee income from customer application and maintenance, retailer transactions, merchant processing and finance and penalty charges on credit cards.

According to BCP s internal records, the number of active credit cards issued by BCP increased from 258,000 in 2004 to 296,000 in 2005. Total purchases went up from US$414.3 million to US$498.0 million. BCB has issued approximately 12,282 active credit cards in Bolivia.

BCP s credit cards are primarily, and have been historically, issued through Visa, but in May 2000 BCP began offering American Express cards. BCP estimates that its credit cards account for 15% of the credit cards issued by the banking system in Peru as of December 31, 2005. The estimated total number of credit cards issued in Peru as of December 31, 2005 was approximately 4.7 million, of which approximately 44% were issued by non-banking entities or department stores.

In 1997, was established in Peru to process transactions involving credit and debit card transactions and to widen their acceptance, with the participation of major local banks and Visa International. BCP is the largest shareholder of VISANET, holding approximately 36% of its total shares. Based upon BCP s internal data, the number of electronic payment terminals was approximately 18,000 in 2005 compared to 15,741 in 2004.

According to ASBANC the credit balance as of December 31, 2005 was US$303 million, representing 6.6% of total loans. Based on internal reports, in 2005 BCP s market share of total purchases made with Visa credit cards was 36.5%, compared to 38.0% in 2004. These numbers reflect BCP s strategy of seeking more widespread use of the cards at the lower end of the consumer market. As part of this strategy, financing with fixed installment payments using the Visa credit card has been offered since the last quarter of 2001. BCP is taking steps to improve its card approval and collection process. These measures include issuing cards only to persons with stable net monthly incomes above US$400 and developing better methods for verifying applicants information and credit history. Additionally, BCP has developed a mathematical scoring system to better assess the risk-reward variables associated with consumer lending. BCP also seeks to increase its market share in terms of stock by granting higher lines of credit to those Exclusive Banking clients.

In the segment of clients who do not regularly have access to credit cards, campaigns were launched to increase the use of the Credimás debit card as a form of payment. This resulted in a year-to-year increase of 30% from US$179 million to US$232.5 million, and achieving a market share of 65% in this market.

(iii) Service Banking Division

The Service Banking division is in charge of managing distribution channels and procedures aimed at satisfying requirements of retail banking, and also includes units specifically responsible for processes and information regarding technological and organizational matters as well as for the operation of BCP s branch network. BCP evaluates its branch network on a continuous basis to monitor branch profitability in order to improve operating efficiency.

The Service Banking division carries out personal loan authorization and collection and has invested substantially during the past few years to improve delivery channels in order to provide better quality and more efficient service. It is also responsible for the development and sales of third-party processing services that generate fee income from transactions and mass processing to meet the needs of the clients. In 2005, Service Banking continued focusing on increasing transaction volume from under-banked segments of the population. For this reason, BCP started in 2005, the implementation of new attention channels known as Agentes ViaBCP . These are attention points located in small business stores and attended to by the business s owner, which allow operations for limited amounts to be carried out, thus expanding the attention network to areas which register a low number of operations. Sixty-one Agentes ViaBCP have been installed in 2005, and BCP expects to have installed 300 Agentes ViaBCP by the end of 2006.

To reduce costs and improve service quality, BCP has encouraged use of electronic channels where transactions costs are lower that at bank windows and a faster and more efficient service is possible. Thus, despite a larger total number of transactions, the share of window and telephone transactions over total transactions continued to fall from 41% to 40%, between 2004 and 2005, while the number of transactions at automatic tellers, automatic balance machines, and Internet banking rose from 41% to 42%.

The Service Banking division is oriented towards satisfying client needs. Service Banking serves all of BCP s existing clients as well as any potential client and aims to improve BCP s profitability levels and increase resource retention levels through the efficient use of assigned resources. Furthermore, the Service Banking division supervises the correct execution of operations and processes of BCP s network channels and process units in order to ensure superior quality service levels with the lowest operating and commercial costs. This division is also in charge of supervising compliance in the branch network.

As of December 31, 2005, BCP s branch network consisted of 133 branches in Greater Lima and 85 branches in the provinces of Perú, the largest number of branches, with the most extensive country coverage, of any privately held bank in Perú. Credicorp believes that BCP s branch network has been largely responsible for BCP s success in attracting stable, relatively low-cost deposits. BCP has installed the most extensive network of ATMs in Perú, currently consisting of 551 ATMs, increasing from 526 at year-end 2004, in addition to other electronic channels, including the Internet, that provide clients with a wider array of services and reduce congestion in the branches; and Agentes Via BCP mentioned above. During 2002, BCP began operations of an agency in Miami and a branch in Panama, and closed its branches in Nassau and New York. During 2003, BCP converted 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.

BCB has 47 branches located throughout Bolivia, together with 124 ATMs, which is the largest ATM network in Bolivia

(iv) Capital Markets Division

In addition to BCP s wholesale and retail banking operations, BCP operates a Capital Markets division, which currently is the largest capital markets and brokerage distribution system in Perú. The principal activities of the Capital Markets division include currency transactions both for clients and on a proprietary basis, treasury, custody and trust, investment advisory services, and general research activities.

The products offered are distributed through BCP s subsidiaries and branches. A close relationship and coordination with subsidiaries have established BCP as the market leader with this business unit.

Credibolsa is BCP s brokerage subsidiary through which BCP offers a wide variety of variable and fixed income products and services. Activities include the structuring and placement of primary market issues and the execution and trading of secondary market transactions.

Credititulos is BCP s asset securitization subsidiary through which BCP offers local securitization structuring to corporate entities.

Credifondo is BCP s fund management subsidiary, which offers investment fund products and services. Fund types offered include short/long term, US dollar and local currency, fixed/variable income and real estate funds.

Trading and Brokerage Services

BCP s subsidiary, Credibolsa, is the leading brokerage house on the Lima Stock Exchange. According to data from the Lima Stock Exchange, during 2005, Credibolsa had a total trading volume of US$1.8 billion, increasing from US$1.7 billion in 2004. Credibolsa had 15.98% of the total trading volume in variable equity instruments and 54.1% of the volume in trading of fixed income instruments on the Lima Stock Exchange in 2005, compared to 14% and 64% in 2004, respectively. 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.

BCP s management believes that, in an environment of low profitability and high competition over the past few years, Credibolsa has been able to increase its profitability by expanding its sources of revenue. In addition to providing basic brokerage services, Credibolsa serves as a local market advisor for specialized stock market transactions and has been one of the principal agents in the equity offerings of privatized companies in Peru.

Treasury, Foreign Exchange and Proprietary Trading

BCP s treasury and foreign exchange groups are active participants in money market and foreign exchange trading. These groups manage BCP s foreign exchange positions and reserves and are also involved in analyzing liquidity and other asset/liability matters. The trading desk plays an important role in short-term money markets in Nuevos Soles and in foreign currencies and has been active in the auctions of certificates of deposit by Peru s Central Bank and in financings through certificates of deposit, inter-bank transactions and guaranteed negotiable notes, among other instruments. According to BCP s internal reports, its foreign exchange transaction volume was US$8.0 billion in the forward market and US$23.6 billion in the spot market in 2005, achieving a market share in the foreign exchange trading services of approximately 41% in the forward market and 29% in the spot market.

BCP s proprietary trading consists of trading and short-term investments in securities, which include instruments from various countries. These short-term investments are primarily made to facilitate its treasury management and corporate finance efforts. This has become an increasingly important part of BCP s business, as BCP seeks returns on excess liquidity pending improved lending conditions.

Asset Management

In June 1994, BCP created Credifondo S.A., Sociedad Administradora de Fondos Mutuos de Inversión en Valores (Credifondo) to establish, provide advice to and operate mutual funds in Peru. In 2005 it continued to be the largest mutual fund manager in Peru with 50.9% of the market at year-end, as compared to 51.6% in 2004, based upon data from the Comisión Nacional Supervisora de Empresas y Valores (CONASEV), the Peruvian securities market authority. As of December 31, 2005, total Peruvian funds in the mutual funds system amounted to US$2.0 billion, increasing 11% from US$1.8 billion in 2004.

According to CONASEV, as of December 31, 2005, Credifondo managed five separate funds, with a total of 64,886 participants (56.2% of total participants) compared to 45,727 (55.4% of total participants in 2004). Among the securities in which the different funds specialize are: equities, U.S. Dollar-denominated bonds, Nuevo Sol-denominated bonds, U.S. Dollar-denominated short-term securities and U.S. Dollar-denominated real estate securities. As of December 31, 2005, the total amount of funds managed by Credifondo was US$1,015 million, increasing from US$912 million as of December 31, 2004. Such funds are subject to certain volatility and there can be no assurance as to their future performance. Credicorp does not guarantee any minimum return on these investments.

As of December 31, 2005, the Bolivian fund administrator managed a total of US$55.3 million of third-party funds (US$41.8 million in 2004).

Trust, Custody and Securitization Services

According to BCP s internal reports, BCP holds US$6.1 billion in securities for over 126,600 domestic and foreign clients. Custody services provided by BCP include the physical keeping of securities and the payment of dividends and interest. In addition, BCP acts as paying agent for securities of which it does not keep custody. BCP is one of the few banks in Peru qualified 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, allowing clients to be adequately represented in their activities in the local and international securities markets.

In 2000, Inversiones Crédito del Perú (now Grupo Crédito), a subsidiary of Credicorp, jointly with two other Peruvian banks, formed La Fiduciaria S.A. (Fiduciaria), the first specialized trust services company in Peru, in which Credicorp holds a 45% interest. In its fourth year of existence, Fiduciaria manages trusts for a majority of institutions in the national financial system, putting itself at the forefront of fiduciary services in the country. Operations encompassed sectors including energy, communications, mining, tourism, fishing, education and construction. Fiduciaria ended 2005 with 102 outstanding operations (90 in 2004) and administers assets and discounted funds flow of more than US$3.0 billion (US$2.8 billion in 2004).

(v) Lending Policies and Procedures

Uniform credit policies and approval and review procedures are based upon conservative criteria adopted by BCP and are uniformly applied to all of its subsidiaries. These policies are set within the guidelines established by Peruvian financial sector laws and SBS regulations. (See (11) Supervision and Regulation (ii) BCP), 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, as well as the collateral to be provided, are other important factors in the credit approval process. For BCP s individual borrowers, the information that is presented by the prospective borrower is evaluated by a credit officer and the application is passed through a scoring program for approval by a centralized credit unit.

Credit risk in retail banking involves the assessment of the client s financial track record and other aspects in order to determine its ability to repay debt. Additionally, in each case, loan approval is subject to a number of credit scoring models, which assign loan-loss probabilities that relate to expected returns of each market segment.

Success in the small business and personal lending areas depends largely on BCP s ability to obtain reliable credit information about prospective borrowers. In this regard, BCP, together with several partners, formed a credit research company called Infocorp in November 1995. In addition, the SBS has expanded its credit exposure database service to cover all businesses or individuals with any amount borrowed from a Peruvian financial institution, including information on the loan risk category in which the borrowers are classified: Normal, Potential Problem, Deficient, Doubtful and Loss.

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

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

	Wholesale	Personal and Small Business
	(In U.S. Dollars)	
Loans supported by liquid collateral or not exceeding two years (1)		
Loan Officer and Credit Analysis Officer	300,000	50,000
Chief Lending and Chief Credit Analysis Officer	1,350,000	100,000
Area Manager	4,500,000	400,000
Senior Credit Officer	7,500,000	1,000,000
Loans supported by other collateral or exceeding two years (2)		
Loan Officer and Credit Analysis Officer	100,000	25,000
Chief Lending and Chief Credit Analysis Officer	450,000	50,000
Area Manager	1,500,000	200,000
Senior Credit Officer	2,500,000	400,000

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

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

In general, BCP is a secured lender. As of December 31, 2005, approximately US$2.7 billion of the loan portfolio and contingent credits were secured by collateral which represents 51.3% of the total loan portfolio based upon BCP s unconsolidated figures (50.2% as of December 31, 2004 and 51.7% as of December 31, 2003). Liquid collateral is a small portion of the total collateral. In general, if BCP 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 25%. In cases where a borrower encounters difficulties, BCP seeks to obtain additional collateral.

The existence of collateral does not affect the loan classification process according to regulations in effect as of December 1998. Pursuant to the Peruvian Banking Law, secured loans, or the portion thereof covered by collateral, classified in Class B, C, or D risk categories have a lower loan loss provision requirement for Peruvian accounting purposes. If a borrower is classified as substandard or below, then BCP entire credit exposure to that borrower is so classified.

BCP conducts unannounced internal audits on the financial statements, consistent with local banking regulation of the different jurisdictions in which it operates.

(vi) Deposits

Deposits are principally managed by BCP s Retail Banking division. 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 greatest strengths. BCP has historically relied on the more traditional, stable, low cost deposit sources, which it considers to be its core deposits: demand deposits, savings and CTS deposits. CTS deposits, or Severance Indemnity Deposits, are funded by companies in the name of their employees, amounting to one month s salary per year, and may be withdrawn by the employee only upon termination of employment or upon transfer to another bank, subject to certain exceptions. Exceptions include disposing of 50% of the CTS deposit at any time and disposing of up to 80% at once for home purchase.

As of December 31, 2005, these core deposits represented 67.7% of BCP s total deposits on an unconsolidated basis. BCP s extensive branch network facilitates access to this type of stable and low cost source of funding. BCP s corporate clients are also an important source of funding for BCP. As of December 31, 2005, BCP s Wholesale Banking division accounted for approximately 44.4% of total deposits, of which 54.6% were demand deposits, 40.2% time deposits, and 5.2% savings. Of all deposits from BCP s Wholesale Banking division, most (68.4%) were foreign currency-denominated (almost entirely U.S. Dollars) and the balance (31.6%) were Nuevo Sol-denominated.

(vii) Support Units

Commercial banking operations are supported by BCP s Market Risk unit, which evaluates and helps administer credit relationships, establishes credit policies and monitors credit risk. See (4) BCP and Subsidiaries (v) Lending Policies and Procedures .

BCP s Planning and Finance unit is in charge of planning, accounting and investor relations functions and is also responsible for analyzing the economic, business and competitive environment in order to provide the information necessary to support senior management s decision-making.

In addition to the above, BCP s Administration division is generally responsible for information technology, quality control, institutional and public relations, human resources, the legal department, security, maintenance and supplies.

Information Technology

BCP is a technology leader in the Peruvian banking sector. BCP developed its technology platform largely using internal resources and was the second to introduce ATMs in 1986 in the Peruvian market, the first to introduce electronic banking for corporations in 1988, telephone banking in 1996 and internet banking for the retail segment in 1999, into the Peruvian banking sector.

BCP s management believes that BCP offers a wider range of banking services through its ATM network and electronic banking facilities than any of its competitors. In 1974, BCP, in an effort to improve the data transmission among its offices connected all its offices through the Teleproceso TP Bancario, becoming the first bank in Latin America able to approve account balances online, allowing, among others, money transfers from an account in one province of Peru to another province, immediately.

All of BCP s retail banking services and a substantial portion of BCP s corporate banking services are fully computerized. All of BCP s points of service, including branches, ATMs and POS terminals, are linked to BCP s Data Processing Center, permitting BCP to monitor and analyze service while allowing most transactions to be executed on a real-time, on-line basis.

BCP s technology operations and initiatives are managed by BCP s electronic data processing and software development departments. These departments employ a total of 550 full-time employees, including employees who develop, install, maintain and operate all of BCP s software applications, management information and security systems and install branch hardware equipment. BCP s most critical operational data and software are stored on a mainframe computer system, access to which is controlled by a series of authorized passwords, in the frame of very strong IT security policies.

BCP its consulting to design a disaster recovery system which duplicates all of operational and functional systems by mirroring each of BCP s computer systems. BCP s disaster recovery center is located 10 miles from BCP s main center. However, BCP has just started the first stage of a project aiming to move this center out of the city of Lima. In the event of a disaster, natural or otherwise, whereby BCP cannot operate its technology infrastructure, the system is designed to act as a surrogate technology backbone, providing all of BCP s services to the branches and electronic banking systems. The system is designed to allow BCP to operate under as close to normal conditions as possible during such a disaster, although this system has never been required to date.

BCP considers its technology platform to be one of its main competitive strengths and has continued to invest in this area to maintain its competitive position in the banking sector. Therefore, BCP s investments in IT have provided the computing power, storage capacity, bandwidth and other IT services to the best of their class.

Many Linux/Unix/Windows server systems are deployed or upgraded to host collaborative applications, call center and virtual POS systems. JAVA-based application servers have been chosen as the strategic growth platform for core business applications. Over the next three years, the replacement of BCP s branch automation software has been designed to use the latest proven technology available, which will improve its successful system that among other things can prioritize queues for eligible customers via a ticketing system in the branches.

Quality Control

BCP continually works to promote and improve client service, relying on acquired knowledge of its clients needs and expectations as well as feedback from clients. On the basis of this information, BCP identifies opportunities to improve employee training and motivation, as well as processes and products.

In 2005, BCP performed several market studies to determine client satisfaction levels and loyalty. BCP conducted 20,843 telephone interviews to evaluate various of its services with 58% of respondents rating such services excellent or very good . In addition, BCP conducted 11,524 anonymous client visits throughout Perú to measure compliance with its customer service standards.

BCP has established a program, denominated the Model Attitude Recognition Program, to reward outstanding employee efforts that reflect its corporate values. In 2005, BCP recognized 197 employees throughout Perú under this program. In addition, BCP has established a program, denominated the Qualitas Program, to recognize its best employees. BCP recognized 75 employees throughout Perú under this program in 2005. This program was also extended to BCB in 2003, where 22 workers have been recognized to date, and will start in 2006 at ASCH.

Starting in 2002, BCP has evaluated the overall quality of management on an annual basis using the BCP Management Model, which is based on and updated following the Malcom Baldridge Model. The 2005 evaluation placed BCP s management in the effective management organization range. BCP expects that the overall quality of management will continue to improve as it has in previous years in accordance with prior evaluations.

Marketing

BCP continually works to protect and strengthen the BCP brand. BCP has a proactive attitude towards competition and, focusing on change and innovation, it seeks to promote its products and services by constantly improving them. In this manner, BCP aims to meet market needs with the ultimate purpose of creating the highest possible value for its clients and shareholders.

In 2005, BCP launched a comprehensive program to further enhance client satisfaction and strengthen loyalty. BCP launched a campaign based on the concept of mutual trust to strengthen BCP s emotional link with its clients by highlighting track record, accessibility and service strengths. This campaign has yielded highly satisfactory results to date, including record customer evaluation and acceptance indicators. Simultaneously, BCP started an in-house campaign to strengthen employee commitment to BCP. In line with this program, in 2005, BCP extended operating hours in its nationwide office network and launched a program to open ViaBCP Agents at over 300 points of service by the end of 2006. In addition, in January 2006 BCP launched new savings plans which it believes will also improve the value of its offering to clients.

In addition, increased client segmentation has permitted BCP to specifically target proposals to different clients, allowing BCP to improve customer retention through its wide range of product offerings and the high quality of its services. BCP s commitment to streamlining its operations to provide easier access and improved service to clients will remain one of its principal objectives in 2006. This will require BCP s continued efforts to simplify and increase the efficiency of its main processes and improve its customer care channels.

Finally, in terms of sales, BCP continued to implement its Client Relationship Management strategy in 2005. The principal focus of this strategy is the development of improved databases including each client s system-wide financial records to better identify client development opportunities and anticipate client needs. In addition, BCP has developed several management tools available throughout its entire network aimed at providing updated client information in order to increase sales, enhance client service and optimize customer service times.

(viii) Anti Money Laundering Policies

BCP has programs in place to comply with the know your customer regulations in the countries in which it operates. In addition to complying with the provisions of Peruvian law described below, BCP has had internal know your customer policies since 1995. As an additional precaution, ASHC will open accounts only for individuals or entities that are recommended by senior officers of ASHC or BCP.

Perú has long-standing laws criminalizing money laundering activities, and such laws were further strengthened in 1996 with the adoption of the Peruvian Banking Law, which incorporated the guidelines of the Organization of American States directly into Peruvian law, and Law 28306 which revised functions assigned to the Financial Intelligence Unit, a public entity in charge of directing anti-money laundering actions and monitoring information that public and private companies are required to provide. The Financial Intelligence Unit has the authority to request detailed reports with respect to the movement of funds and the identity of depositors. According to recently enacted regulations, mainly Law 28306 and SBS Resolution 1725-2003, financial institutions must adopt internal mechanisms, appoint a full-time compliance officer reporting directly to the Board of Directors and conduct special personnel training programs and procedures to detect and report unusual or suspicious transactions as defined therein.

(ix) Employees

As of December 31, 2005, BCP had 7,479 full-time employees, compared to 7,694 employees as of December 31, 2004 and 7,530 employees as of December 31, 2003. All employees of banks in Peru are given the option of belonging to an employee union, and such employee unions are collectively represented by the Federación de Empleados Bancarios or Federation of Banking Employees (FEB). In order to negotiate a collective agreement on behalf of its members, FEB must have as members over 50% of all Peruvian banking employees. Because the representation of banking employees members of FEB declined to below 50%, primarily because of the substantial reduction in the size of the State-owned banking business during the 1990s, the most recent collective bargaining agreement, which expired on June 30, 1995, was not renewed. As of December 31, 2005, BCP had no unionized employees. The last strike by union employees occurred in 1991 and did not interfere with BCP s operations.

(5) Atlantic Security Holding Corporation

ASHC engages in trade finance, private banking, asset management and proprietary investment and trading activities. ASCH was incorporated in December 1981 in the Cayman Islands and principally serves Peruvian-based customers through banking offices in Panama, and representative offices in Lima

A portion of Credicorp s commercial banking business is also carried out by ASHC, which principally serves Peruvian private banking customers through offices in Panama. As of December 31, 2005, ASHC had total assets of US$1,114.6 million and shareholders equity of US$164.8 million (compared with US$880.3 million and US$151.0 million, respectively, as of December 31, 2004). ASHC s net income was US$25.2 million in 2005 and US$19.1 million in 2004, which include income from dividends paid by Credicorp. Larger revenues from dividends are a consequence of strong Credicorp dividend payments in 2005, resulting from improved earnings in the prior year. Since this figure is not reflected in the consolidated results, ASHC s net income attributable to Credicorp remained relatively stable with a total of US$13.5 million in 2005 compared to US$13.3 million in 2004.

Total loans outstanding in ASHC s portfolio totaled US$152.3 million and US$160.4 million at December 31, 2004, and 2005, respectively, representing an increase of 5.3%. Deposits increased 35.8% to US$931.7 at December 31, 2005 from US$686.1 million at December 31, 2004. Third party assets under management increased 34.1% from US$758.5 million in 2004 to US$1,017.0 million in 2005, principally due to low interest rates paid on deposits and to the introduction of new products, notably mutual funds. ASHC s past due loans as a percentage of total loans was 0.0% from 1996 through 2002, but reached 2.3% as of December 2003, and declined back to 0.0% at December 31, 2004 and 2005.

ASHC s Corporate Banking division makes working capital and bridge loans. As of December 31, 2005, approximately 44.9% of ASHC s loans were to Peruvian companies, 3.2% were to companies in Bolivia, 6.4% were to companies in Colombia, 5.8% were to companies in El Salvador, and the remainder were to borrowers in other Latin American countries. ASHC s trade finance activities are conducted by its Corporate Banking division. ASHC has concentrated its extensions of credit on short-term trade transactions with Latin American countries other than Perú.

ASHC s policy is to provide funding to customers on the basis of approved lines of credit. ASHC s Credit Committee meets weekly to discuss the entire credit risk inherent in the risk portfolio, composed by loans and trading securities, 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$50,000 to US$500,000. Regardless of whether an approved facility exists for a client, any transaction in excess of US$500,000 requires the approval of senior management. In addition, all credit extensions are monitored by ASHC s General Manager and reviewed and approved quarterly in their entirety by the Credit Committee of the Board of Directors of ASHC.

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, 2005, ASHC had approximately 3,000 customers. Currently, about 95% of ASHC s private banking clients are Peruvian.

ASHC trades on its own account primarily by making medium-term investments in fixed income securities, equity securities and sovereign debt. The portfolio includes investment grade and non-investment grade debt securities of public companies and, to a much lesser extent, private U.S. debt and equity issues. Such securities are subject to substantial volatility and there can be no assurance as to their future performance. As of December 31, 2005, ASHC had approximately US$520.5 million, at fair values, invested in these types of securities (US$453.2 million in 2004). ASHC generally utilizes its own funds for these activities rather than borrowings. ASHC also holds an equity investment in Credicorp and an affiliate with a fair value of approximately US$333.2 million at December 31, 2005 (US$234.8 million at December 31, 2004), increasing during 2004 due in part to shares acquired from PPS. ASHC s investment portfolio, as well as future purchases, sales, overall investment strategy and the general profile of the trading portfolio are reviewed on a monthly basis by an investment committee comprised of members of its senior management. The Board of Directors of ASHC reviews and approves exposure limits for countries with transfer risk on a quarterly basis. The credit risk by counterparty is evaluated on a consolidated basis, including direct and indirect risk, such as interbank placements, loans, commitments, guarantees received, and trading securities purchased in the secondary market.

ASHC s Asset Management group, created in 1989, conducts ASHC s management of third-party funds which, including the aggregate of third-party assets, had total assets under management of US$1,017.0 million as of December 31, 2005, compared to US$758.5 million as of December 31, 2004. This increase was principally due to continued low levels of interest rates paid on banking deposits, which led clients to transfer their funds from deposits to investment products, and the introduction of new products, including outsourced mutual funds managed by specialized fund administrators. Investment decisions for funds, except for outsourced funds, are made by senior officers within ASHC, in accordance with guidelines of the Investment Committee.

(6) Pacífico Peruano Suiza

Credicorp conducts its insurance operations exclusively through PPS, which provides a broad range of insurance products. In 2005, the six most significant lines together constituted 80.6% of total premiums written by PPS. These are commercial property damage (including fire, earthquake and related coverage but not personal injury, tort or other liability risk), automobile, health, life and pension fund underwriting and life annuities. PPS is the second leading Peruvian insurance company including private health companies, with a market share of 31.8% based on net premiums earned and fees in 2005.

PPS s consolidated net income attributable to Credicorp in 2005 was US$5.6 million, a decrease of 41.7% from US$9.6 million in 2004. Operating expenses during 2005 were 19.7% of net premiums earned, lower than 22.1% in 2004. PPS s net underwriting results decreased 37.1% to US$19.6 million in 2005 from US$31.1 million in 2004, mainly due to higher claims in the marine hull insurance business. The ratio of net underwriting results to total premiums decreased from 9.0% during 2004 to 5.4% in 2005, also mainly as a result of higher claims in the marine hull insurance business. Total premiums increased 4.2% to US$359.0 million during 2005 from US$344.5 million in 2004. Net premiums earned, net of reinsured premiums and of technical reserves (as defined below in (ii) Claims and reserves), were US$222.5 million in 2005, increasing 8.5% as compared to the previous year.

PPS s business is highly concentrated, with a client base of over 15,500 companies and over 60,000 individuals in the property and casualty and health insurance programs, not including individuals affiliated with group health insurance programs through the companies by which they are employed. PPS s life insurance client base consists of over 80,000 individuals. This concentration is primarily attributable to the relatively low premium levels of PPS s personal insurance lines compared to premium levels of its commercial property insurance lines, in respect of which PPS has traditionally ceded substantially all premiums written to reinsurers. Revenues from policies written for PPS s three largest and twenty largest customers represented 6.7% and 17.8% of total premiums, respectively, as of December 31, 2005, and 9.5% and 22.3%, respectively, as of December 31, 2004. PPS s property insurance lines are sold through agents and brokers, while life insurance is sold by its own sales force. The ten largest brokers accounted for approximately 30.2% of total premiums as of December 31, 2005 (21.6% as of December 31, 2004).

El Pacífico Vida (Pacífico Vida), PPS life insurance subsidiary since 1997, is 38%-owned by a subsidiary of American International Group (AIG). Pacífico Vida had total premiums of US$110.5 million in 2005, a 1.7% increase from total premiums of US$108.6 million in 2004. Pacífico Vida s net income reached US$9.9 million in each of 2005 and 2004. PPS expects that its life insurance revenues will continue to increase and believes that AIG s participation in Pacífico Vida will provide the company with an advantage in competing for market share. Pacífico Vida s market share in 2005 was 37.0% in individual life insurance and 26.2% in legal life insurance in 2005, compared to 29.7% and 39.0% in 2004, respectively.

In 1999, PPS formed Pacífico Salud, becoming one of only three private health insurance companies in Peru at that time to offer an alternative to public social security. In March 2004, PPS acquired Novasalud EPS for US$6.5 million, and merged it with Pacífico Salud in August 2004. Pacífico Salud had total revenue of US$75.7 million in 2005 (US$75.5 million in 2004), with a net loss of US$1.7 million in 2005 (compared to net income of US$1.5 million in 2004) mainly due to the recognition in 2005 of reserves for incurred but not reported (IBNR) claims.

(i) Underwriting, Clients and Reinsurance

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

PPS utilizes reinsurance to limit its maximum aggregate losses and minimize exposure on large risks. Reinsurance is placed with reinsurance companies based on evaluation of the financial capacity of the reinsurer, terms of coverage and price. PPS s principal reinsurers in 2005 were Lloyd s, New Hampshire Insurance Co., Swiss Re, Munich Reinsurance Company, Hannover Reinsurance Company, Casiopea Re and AXA Re. Premiums ceded to reinsurers represented 25.0%, 21.0% and 18.9% of premiums written in 2003, 2004 and 2005, 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. As of December 31, 2005, premiums for reinsurance written by PPS totaled US$5.2 million.

Although PPS historically has obtained reinsurance for a substantial portion of its earthquake-related risks and maintains catastrophe 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. See Claims and Reserves.

(ii) Claims and Reserves

Net claims paid as a percent of net premiums written (i.e., the net loss ratio) increased to 59.7% in 2005 from 53.8% in 2004 and 48.9% in 2003. The net loss ratio from the health and medical assistance insurance line, which represented 30.5% of total premiums in 2005, increased to 82.9% in 2005 from 81.8% in 2004. Automobile risks, 4.9% of PPS s premiums in 2005 (4.8% in 2004), increased to 63.1% in 2005 from 60.5% in 2004. The property casualty line, 15.7% of total premiums in 2005 (16.0% in 2004), increased to 24% in 2005 from 19.4% in 2004. Marine hull insurance claims, 3.2% of premiums, increased to 99.7% in 2005 from 72.1% in 2004. The net loss ratio from private pension fund insurance, 6.5% of total premiums in 2005 (6.1% in 2004), increased to 89.5% in 2005 from 78% in 2004.

PPS is required to establish claims reserves in respect of pending claims in its property-casualty 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 when reported, as well as for IBNR claims. Such reserves are reflected as liabilities in PPS s financial statements.

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. These reserves are determined using mortality tables, morbidity assumptions, interest rates and methods of calculation in accordance with international practices.

Pursuant to SBS regulations, PPS establishes pre-event reserves for catastrophic risks with respect to earthquake coverage, including since 2003 unearned premiums, in the commercial property, business interruption, and engineering lines. See (11) Supervision and Regulation (v) PPS Reserve Requirements. In accordance with IFRS principles, the pre-event reserves and income charges for catastrophic reserves are not considered in Credicorp s consolidated financial statements.

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

(iii) Investment Portfolio

As of December 31, 2005, the book value of PPS s available for sale investments was US$592.7 million, which included US$55.5 million in equity securities and US$537.2 million in bonds. In addition, real state investments book value reached US$31.0 million, with US$6.3 million in depreciation for lower market value assessment.

In April 2004, PPS sold Credicorp Common Shares to ASHC. The sale amounted to S/.115.9 million (US$33.5 million) and resulted in a net gain of S/.75.5 million (US$21.7 million), which is not subject to income taxes, in PPS s local records. In the Credicorp Consolidated Financial Statements, these Common Shares were included in the treasury shares equity account. In Credicorp s records, all the effects of the transfer of these Common Shares, including the gains, were eliminated in the consolidation process. See (12) Selected Statistical Information (iii) Loan Portfolio Concentrations of Loan Portfolio and Lending Limits.

PPS s investment portfolio, prior to the sale of its Common Shares to Backus in 2001 and to ASHC in April 2004, was highly concentrated in equity securities which, combined with limited investments in fixed income securities, made both the value and the income of the investment portfolio vulnerable to extreme volatility. With part of the proceeds from these sales, additional investments have been primarily made in fixed income securities. Because the investments in specific securities 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 U.S. dollar position, since a significant portion of its premiums are denominated, and much of its operations are conducted, in U.S. Dollars. In 2005, 63.9% of the gross premiums received by PPS were denominated in U.S. Dollars (66.2% in 2004). As of December 31, 2005, PPS had US$53.9 million in short and medium-term U.S. Dollar-denominated deposits and U.S. Dollar-denominated bonds (primarily issued by Peruvian companies) (US$42.0 million as of December 31, 2004).

PPS s investments are made primarily to meet its solvency equity ratio and to provide reserves for claims. PPS manages its investments under two distinct portfolios. The first portfolio is designed to match the liabilities of property, automobile and health lines, and the second portfolio is designed to match the liabilities of life and annuities lines. Each portfolio is managed under the authority of its own committee, which reviews portfolio strategy on a monthly basis. PPS invests in foreign markets, emphasizing investments in U.S. and European sovereign debt. PPS has adopted strict policies related to investment decisions. PPS s investment strategies and portfolio generally are reviewed and approved monthly by its Board of Directors. Senior management does have investment authority, however, with respect to temporary investments using cash surpluses.

PPS, like other major Peruvian insurance companies, sells its products both directly and through independent brokers and agents. Directly written policies tend to be for large commercial clients, as well as for life and health insurance lines.

Credicorp is attempting to expand PPS s sales network, which currently has 20 offices throughout Perú, by selling certain insurance products through BCP s branch network. PPS offers, in collaboration with BCP, a life and health insurance product called Segurimax as well as a personal life insurance product that combines accidental death coverage with renewable term life insurance.

(7) Grupo Crédito/Prima AFP

In February 2005, Credicorp was authorized by Peruvian regulatory authorities to establish Prima AFP, in which Grupo Crédito is the main shareholder. In August 2005, Prima AFP started operations with a more diverse product offering than its competitors in the private pension fund administration market, which has so far been characterized by the dominance of a few highly concentrated competitors. Although weak customer loyalty and few barriers contributed to client migration in the market, weak competition and weak client recruitment also restricted those flows. With over 3.5 million members, of which only 38.5% made effective contributions, the market s portfolio appeared highly concentrated. Lima hosted 56% of members while only 12% of payers accounted for almost 50% of member payments. Given the importance of quality clients for pension fund administrators, high income members and major companies wielded significant negotiation power.

Prima AFP has entered the market with a high quality offering combining competitive fees, sound backing, expert investment staffing and proximity to clients. Prima AFP s entry has stirred the market and improved offerings for all members by leading to an increase in the quality of available information, the improvement of contact with pension fund administrators and a reduction in fees.

After launching its operations, Prima AFP has gradually expanded its sales force to build an 800-member staff with offices in Lima, Chiclayo, Piura, Trujillo and Arequipa. Prima AFP recorded losses of US$7.6 million for the year ended December 31, 2005. Revenues from fees reached US$0.4 million in 2005, while commercial and administrative expenses in 2005 were also in line with expectations, amounting to US$7.1 million and US$6.7 million, respectively, despite higher than expected recruitment of affiliates. 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, reflecting client confidence, in particular among high-income members.

(8) Competition

(i) Banking

The Peruvian banking sector is currently comprised of 12 commercial banking institutions. As of December 31, 2005, BCP ranked first among all Peruvian banks in terms of assets, deposits and loans with a market share of 37.4% of assets, 34.4% of deposits and 32.1% of loans.

Major Peruvian Banks as of December 31, 2005	Assets	Deposits	Loans
BCP	37.4%	34.4%	32.1%
Banco Continental	23.4%	27.4%	22.9%
Banco Wiese Sudameris	15.4%	15.9%	14.9%
Interbank	8.0%	8.5%	9.9%
Banco Sudamericano	3.2%	2.5%	3.8%

Source: SBS

The Peruvian banking industry experienced consolidation following the economic downturn in 1998, with the number of institutions declining from a peak of 25 banks. During 1999, Banco de Lima merged with Wiese, Banco Sur merged with BSCH-Perú, Banco del País merged with Nuevo Mundo and Progreso merged with Norbank, while Banex was liquidated and Solventa was turned into a finance company. During 2000, Orion and Serbanco were liquidated. In 2001, Interbank and Latino agreed to merge, NBK Bank merged with Banco Financiero and Nuevo Mundo was liquidated. In December 2002, BCP acquired BSCH-Perú and merged it into BCP in March 2003. In the first quarter of 2005, BCP acquired the onshore and offshore loan portfolio of Bank Boston s Peruvian subsidiary, which amounted to approximately US$353 million.

Credicorp believes that the Peruvian banking industry will continue to face an increasingly competitive environment within a generalized excess liquidity situation. 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. Certain foreign banks have either reduced or liquidated their Peruvian operations in recent years, reducing competition to some extent from such competitors.

Since 1999, excess liquidity at major Peruvian banks has put pressure on margins. Credicorp does not intend to pursue corporate lending opportunities that are unprofitable solely in order to maintain market share. As a result, Credicorp does not expect Corporate Banking to grow at levels experienced in the past. However, Credicorp will seek to maintain its close relationships with corporate customers, focusing on providing prompt responses to their requirements and setting competitive prices. To this end, Credicorp is currently updating its information systems to improve customer service and to allow management to obtain information on customer and business profitability more efficiently. Credicorp also intends to expand the range of BCP s investment banking and cash management products.

In its core corporate lending and trade finance businesses, ASHC principally competes with larger international institutions. 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 respond rapidly to customer needs, its association with BCP, and its superior knowledge of the region, particularly the Peruvian market.

(ii) Capital Markets

In the Wholesale Banking division, BCP s Corporate Banking unit has experienced increased competition and pressure on margins over the last few years. This is primarily the result of new entrants into the market, including foreign and privatized commercial banks, as well as local and foreign investment banks and non-bank credit providers, such as pension fund administrators (AFPs) and mutual fund companies.

In addition, Peruvian companies have gained access to new sources of capital through the local and international capital markets. In recent years the AFPs and mutual funds-managed assets have increased at rates over those experienced by the banking system. The private pension fund assets reached US$9.5 billion as of December 31, 2005, increasing 22% since December 31, 2004, with a return of 18.43% in real terms in the year. Total mutual funds reached US$2.0 billion, with a 3.7% return (in U.S. Dollar terms), in 2005, an 11.1% increase from US$1.8 billion in 2004.

(iii) Other Financial Institutions

Other institutions in the Peruvian financial system tend to specialize in a given market segment. Such institutions include finance companies, municipal and rural savings and credit associations, municipal public credit associations and savings and credit cooperatives that mainly issue retail loans to small and micro-businesses and consumer and mortgage loans to individuals, markets which have shown substantial increases in recent years. BCP is facing strong competition from these credit providers, primarily in respect of micro-business loans, where such providers lent US$607.2 million as of December 31, 2005, or 48.9% of the total in the financial system, and in consumer loans, where such providers lent US$622.7 million, or 25.4% of the total in the financial system. BCP also faces strong competition in its credit card operations from credit cards issued by retail stores.

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 and other types of financial institutions.

Credicorp believes that BCP s reputation as a sound institution, together with its nationwide branch network coverage, provides it with an advantage over its principal competitors.

(iv) Insurance

Peruvian insurance companies compete principally on the basis of price and also on the basis of name recognition, customer service and product features. PPS believes that its competitive pricing, solid image, and quality of customer service are significant aspects of its overall competitiveness. In addition, PPS believes that its long relationship with AIG provides PPS with competitive advantages through access to AIG s expertise in underwriting, claims management and other business areas. While increased foreign entry into the Peruvian insurance market may put additional pressure on premium rates, particularly for commercial coverage, PPS believes that in the long 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 particularly strong competition in the area of large commercial policies, for which rates and coverage typically are negotiated individually. The loss by PPS to competitors of even a small number of major customers or brokers could have a material impact on PPS s premium levels and market share.

(9) Peruvian Government and Economy

While Credicorp is incorporated in Bermuda, substantially all of BCP s and PPS s operations and customers are located in Perú. Although ASHC is based outside of Perú, a substantial number of its customers are also located in Perú. 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 Perú, including a devaluation of the Nuevo Sol relative to the U.S. Dollar or the imposition of exchange controls by the Peruvian government. See Item 10. Additional Information (D) Exchange Controls. Credicorp s results of operations and financial condition are dependent on the level of economic activity in Perú.

(i) Peruvian Government

During the past several decades, Perú has had a history of political instability that has included military *coups d état* and different governmental regimes. Past governments have frequently intervened 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 (C) Organizational Structure.

In the past, Perú 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. Upon being elected to office in 1990, President Alberto Fujimori s government made substantial progress 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 surrendered to and aided the government under an amnesty law. Despite the success achieved, some isolated incidents of terrorist activity continue to occur, such as the seizure in December 1996 by the MRTA of the Japanese ambassador s residence in Lima.

Over the course of his government, President Fujimori implemented a broad-based reform of Perú 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. In 2000, President Fujimori won a third five-year term in a controversial two round election. In the April 2000 presidential election, Fujimori s 49.9% victory was short of gaining a first round majority vote, forcing a second round election in May which was boycotted by the opposition candidate. 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.

Mr. Toledo assumed the presidency against a backdrop of high unemployment and underemployment, economic recession and social need. Despite the economic strides achieved between 1990 and 2000, poverty remains a persistent problem in Perú, with more than half of the population living below the poverty line, which the World Bank defines as monthly income of less than US$60 per capita, adjusted to reflect differences in purchasing power. A significant number of Peruvians live on an income of less than US$30 per capita per month.

Perú has experienced continuous economic growth since the second half of 2001. President Toledo has retained, for the most part, the economic policies of the previous government, focusing on achieving sustained economic growth by: increasing exports, reducing unemployment, reforming the tax system (primarily by increasing the tax base and improving tax collection), fostering private investment by promoting concessions, maintaining low inflation and the floating exchange rate, improving oversight, transparency guidelines and requirements in regulated sectors of the economy, improving the efficiency of the public sector, and maintaining open trade policies.

President Toledo will transfer the presidency to Alan Garcia Pérez on July 28, 2006 following Mr. Garcia s victory in the run-off of the presidential elections held on June 4, 2006. Mr. Garcia has sent positive signals to the international financial markets following his election as president, and it is expected that Mr. Garcia s government will substantially retain the economic policies of the previous government, although there can be no assurance that this will be the case.

(ii) Peruvian Economy

At the beginning of the 1990s, 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, his government established an agenda to institute a wide-ranging privatization plan and re-establish relations with the international financial community. President Toledo continued these market-oriented policies but, facing opposition from a fragmented Congress and social pressures from unions and regional movements, he has passed some interventionist measures.

In the late 1980s and early 1990s, the Peruvian economy was volatile, with the country s GDP contracting by 11.7% in 1989 and by 5.2% in 1990, growing by 2.2% in 1991, and contracting by 0.4% in 1992. The results of stabilization plans resulted in GDP increasing 4.8% in 1993, 12.8% in 1994, 8.6% in 1995, 2.5% in 1996, 6.7% in 1997. The El Niño and other adverse economic conditions led to a drop of 0.5% in 1998, but recovered 0.9% in 1999, 2.9% in 2000, 0.2% in 2001, 4.9% in 2002, 4.0% in 2003, 4.8% in 2004, and 6.6% in 2005; this growth for seven years in a row had not been seen since 1977. It should be noted that GDP growth figures for some years were revised downwards by the national statistical institute, the INEI, in 2000, which recalculated Perú s GDP in 1999 at around $52 billion using a 1994 base year, some 10% below the previous estimate based on 1979 figures.

In 2004, the Peruvian economy benefited from increased international demand for exports, which drove growth in the construction and manufacturing sectors, as well as in private investment, and more recently in consumption. The continued growth in GDP since the second half of 2001 evidences the strength of Peru s economy in the face of adverse external and internal factors. In 2002 and 2003, unlike other Latin American countries, Peru managed to resist the effects of on-going internal political unrest, the Argentine crisis, the climate of uncertainty that surrounded the presidential elections in Brazil and a greater reluctance among investors to take on risks in Latin America.

One of the principal factors that contributed to the improvement of economic expectations was the 38.8% increase in exports in 2004, which was followed by a new increase (36.7%) in 2005. In particular, it has continued high foreign demand for minerals and raw materials and manufacturers benefited from the Andean Trade Promotion and Drug Eradication Act (ATPDEA) tariff preferences.

However, production was uneven, with investment recovering, and sectors such as construction, oil and gas, mining (particularly mining of precious metals), non-primary manufacturing and fishing registered gains, while agriculture registered only minimal growth.

The decision of the United States in August 2002 to renew and expand tax benefits through the ATPDEA for certain Latin American exports was very beneficial to the manufacturing sector because of its inclusion of Peruvian textiles. These incentives are expected to stimulate exports over the next two years. In May 2004, a free trade agreement began to be negotiated with the United States, together with Colombia and Ecuador, which is expected to extend the favorable tariff status beyond 2006. During 2006 the Free Trade Agreement with the United States was signed. It s left ahead the ratification of it by both congresses.

The government-backed initiative to encourage mortgage loans and the construction of low-cost housing through the MiVivienda program continued to stimulate significant volumes of construction in 2004, aiding expansion of mortgages. As part of the MiVivienda program, US$213 million in loans were granted in 2005, compared to US$ 170 million in 2004, US$134 million in 2003, and US$72 million in 2002.

Since 1991, the government has privatized most of its assets in the finance, fishing and telecommunications sectors. The government made significant progress in privatizing the mining and hydrocarbons, manufacturing, electricity and agriculture sectors. The more than 220 privatizations that have been completed in Peru since 1991 have generated revenues of approximately US$8.2 billion.

The privatization program, which had been expected to raise US$700 million during 2002, encountered problems in June 2002 with public protests against the sale of two electricity generating companies in the south of Perú. This caused the virtual suspension of the program, which obtained income of only US$355 million in 2002, and almost negligible amounts in 2003. The government successfully relaunched its concessions program in 2004, generating revenue in excess of US$200 million. Some of the noteworthy transactions include the Las Bambas copper mine exploration, the Olmos hydro and irrigation project, the Bayóvar phosphates extraction project, the concession for the Yuncan hydroelectric plant and several highway concessions. The government has continued the concession program in 2005 and 2006, with some small projects with a total value of US$ 57 million.

Peru s trade deficit decreased from US$600 million in 1999 to US$300 million in 2000 and US$90 million in 2001. Peru registered a US$210 million surplus in 2002, which grew to US$731 million in 2003, and further to US$2.7 billion in 2004, principally due to continued exports growth. Exports climbed to US$12.5 billion in 2004, 40% higher than the US$9.0 billion registered in 2003, driven by the greater volume of traditional exports, in particular minerals. Imports rose to US$9.8 billion, with increases mainly in raw materials and capital goods. In 2005, trends continued, with exports rising to US$ 17.2 billion (more than US$ 2.0 billion due to higher prices in 2005) and imports increasing to US$ 12.1 billion.

Peru registered a current account deficit of US$1.8 billion in 1999, which decreased to US$1.6 billion in 2000, and further to US$1.2 billion in 2001, to US$1.1 billion in 2002, to US$0.9 billion in 2003, to US$10 million in 2004, and reversed to a US$ 1.0 billion surplus in 2005. Peru s financial account had a surplus of US$1.1 billion in 1999 and 2000, declined to US$1.0 billion in 2001, grew to US$1.8 billion in 2002 as a result of increased public sector capital inflows, was US$0.7 billion in 2003, to US$2.2 billion in 2004, and was US$0.2 billion in 2005. The flow of direct foreign investment into Peru was US$433 million in 2000, US$803 million in 2001, US$2.2 billion in 2002, US$1.3 billion in 2003, US$1.8 billion in 2004, and US$2.5 billion in 2005.

The inflation rate in Perú, as measured by the Lima consumer price index, has fallen from 7,650.0% in 1990 to 139.2% in 1991, 56.7% in 1992, 39.5% in 1993, 15.4% in 1994, 10.2% in 1995, 11.8% in 1996, 6.5% in 1997, 6.0% in 1998, and 3.7% in both 1999 and 2000, turning into deflation of 0.1% in 2001, and back to inflation of 1.5% in 2002, 2.5% in 2003, 3.5% in 2004, and 1.5% in 2005.

The average bank market exchange rate for Nuevos Soles in Peru was S/.3.282 per US$1.00 at December 31, 2004, a 5.2% decrease from S/.3.463 per US$1.00 as of December 31, 2003, which followed a 1.5% decrease in 2003 from S/.3.514 per US$1.00 as of December 31, 2002. The strengthening of the Nuevo Sol relative to the U.S. Dollar was consistent with the pattern for other Latin American currencies, which resulted from higher exports and the weakening of the U.S. Dollar. However, in second half 2005 Nuevo Sol depreciated due to higher international interest rates and political uncertainty, closing year in S/.3.430.

Interest rates have behaved erratically since 1995 but fell gradually over this period until September 1998, at which point the trend reversed due to liquidity constraints brought on by the international financial crisis. The nominal annual interest rate on loans in Nuevos Soles was 37.1% in December 1998, decreasing to 32.0% in December 1999, to 26.5% in December 2000, to 23.0% in December 2001, to 20.7% in December 2002, before increasing to 22.3% in December 2003, and further to 25.4% in December 2004, decreasing to 23.6% in December 2005.

Peru s recent economic performance has also been reflected in a lower fiscal deficit. Peru had a deficit of 3.1% in 1999 and 3.2% in 2000. The deficit declined to 2.5% in 2001, principally due to lower public investment, declined again to 2.3% in 2002, in line with the goal agreed upon with the International Monetary Fund (the IMF), continued to decline to 1.9% in 2003, and further to 1.1% in 2004 and 0.7% in 2005. In addition, efforts to increase tax revenues have been successful, due in part to administrative measures and increased taxes, one of which is the new tax on financial transactions introduced in 2004. Tax collections increased from 6.7% of GDP in 1989 to 12.3% of GDP in 2001, 12.1% in 2002, 13.0% in 2003 and 13.3% in 2004. In order to meet fiscal needs, which are over financed, in 2005 Peru accessed the international capitals markets by closing bond offerings for a total of US$1.65 billion, compared to US$ 1.30 billion in 2004 and US$1.25 billion in 2003.

In July 1996 Perú reached an agreement with the Paris Club countries, resulting in the rescheduling of 1996-1998 maturities. High loan principal amortizations due in 2005 and 2006 will be subject to an additional operation to reduce cash requirements in these years involving the pre-payment of US$2 billion of outstanding debt to be replaced by new debt.

In 1999, Perú signed a three-year extended fund facility accord with the IMF, the third consecutive IMF program it has followed, giving the country a stable framework for macroeconomic planning. However, the fall in tax revenue and increased spending in 1999 caused Perú to fail to fulfill the fiscal goal agreed upon with the IMF of a primary fiscal surplus of 0.5%, which is the public sector s result before capital costs or gains, debt servicing and privatization income. In fact, Perú reported a primary sector deficit of 0.1% in 1999 and of 0.2% in 2000. Perú renegotiated economic targets of its 2000 three-year program, and the IMF approved a new one-year program in March 2001, a second agreement in February 2002 and a follow-up accord in March 2003 with a 1.9% fiscal deficit target for 2003, which was achieved.

The current Stand-By Agreement was approved by the IMF on June 9, 2004, and covers years 2004 to 2006. The macro-economic framework of the agreement stresses the consolidation of recent year-on-year gains due to the low inflation rate and continued improvements in the public sector deficit, tax reform, current account deficit, level of foreign reserves, and other variables, in order to seek higher GDP growth. The program focused on, among other points, reducing the public sector deficit to 1.4% of GDP in 2004 and to 1% per year in each of 2005 and 2006, and on lowering the debt-to-GDP ratio from 47.5% in 2003 to 41.0% in 2006. With a favorable international context, and thanks to a fast reduction of deficit, debt-to-GDP ratio in 2006 decreased to 38.0%.

There can be no assurance that economic growth will be sustained in the future or that inflation in Perú will not increase (whether as a result of an overheating of the Peruvian economy, an increase in the foreign trade deficit, or otherwise). Such 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 Credicorp s 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 widespread withdrawal of deposits.

(10) The Peruvian Financial System

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

(i) General

At December 31, 2005, the Peruvian financial system consisted of the following principal participants: the Central Bank, the SBS, 12 banking institutions (not including Banco de la Nación), three finance companies, and six leasing companies. In addition, Perú 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 Law 26702 was passed in December 1996. Law 26702 regulates Peruvian financial and insurance companies. In general, it provides for tighter loan loss reserve standards, brings asset risk weighting in line with Basel Committee on Banking Regulations and Supervisory Practices of International Settlements (the Basel Accord) guidelines, broadens supervision of financial institutions 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 before the enactment of Law 26702 was Legislative Decree 637, passed in 1991 and amended by Legislative Decree 770, which substantially reformed the Peruvian financial system, modifying regulations initially issued in 1930.

(ii) Central Bank

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

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

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

(iii) SBS

The SBS, whose authority and activities are discussed in (11) 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 Perú.

(iv) Financial System Institutions

Under Peruvian law, financial system institutions are classified as banks, financing companies, other non-banking institutions, specialized companies, and investment banks. BCP is classified as a bank.

Banks

A bank is defined by Law 26702 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.

Banks are permitted to carry out various types of financial operations, including the following: (i) receiving demand deposits, time deposits, savings deposits and deposits in trust; (ii) granting direct loans; (iii) discounting or advancing funds against bills of exchange, promissory notes, and other credit instruments; (iv) granting mortgage loans and accepting bills of exchange in connection therewith; (v) granting conditional and unconditional guaranties; (vi) issuing, confirming, receiving and discounting letters of credit; (vii) acquiring and discounting certificates of deposit, warehouse receipts, bills of exchange and invoices of commercial transactions; (viii) performing credit operations with local and foreign banks, as well as making deposits in such institutions; (ix) issuing and placing local currency and foreign currency bonds, as well as promissory notes and negotiable certificates of deposits; (x) issuing certificates in foreign currency and entering into foreign exchange transactions; (xi) purchasing banks and non-Peruvian institutions which conduct financial intermediation or securities exchange transactions, in order to maintain an international presence; (xii) 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 Perú; (xiii) acting as financial agent for investments in Perú for external parties; (xiv) purchasing, holding and selling instruments evidencing public debt, whether internal or external, as well as obligations of the Central Bank; (xv) making collections, payments and transfers of funds; (xvi) receiving securities and other assets in trust and leasing safety deposit boxes; and (xvii) 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 and may also promote and direct operations in foreign commerce, underwrite initial public offerings, and provide financial advisory services apart from the administration of their clients investment portfolios. By forming a separate department within the bank, universal banks may also act as trustees in trust agreements.

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

Branches of foreign banks enjoy the same rights and are subject to the same obligations as branches of Peruvian banks. Multinational banks, with operations in various countries, may engage in the same activities as Peruvian banks, although their foreign activities are not subject to Peruvian regulations. To carry out banking operations in the local market, such banks must maintain a certain portion of their capital in Perú, 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 (i) issuing loans as overdrafts in checking accounts, (ii) engaging in certain derivative operations, (iii) originating securitization operations, and (iv) establishing subsidiaries in certain specialized fields, such as bonded warehouses, currency transportation and custody, among others.

Other Financial Institutions

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

Perú 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 Perú 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 in financial and non-financial assets, subject to the regulations on investments and reserves established in Law 26702 and the regulations issued by the SBS.

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

The insurance industry has experienced consolidation in recent years with the number of companies decreasing from 19 in 1991 to 12 in 2005.

(11) Supervision and Regulation

(i) Credicorp

Currently, there are no applicable regulatory controls under the laws of Bermuda that are likely to have a material impact upon Credicorp s operations as currently structured. 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 Perú, the Cayman Islands and Bolivia, a summary of Peruvian banking and insurance regulations and Cayman Islands banking regulations is set forth below.

Certain requirements set forth in Law 26702 and certain SBS regulations, including SBS Resolution No.0446-2000, enacted in June 2000, which approved the Regulation of the Consolidated Supervision of Financial and Mixed Conglomerates, are applicable to Credicorp and BCP. These regulations affect Credicorp and BCP primarily in the areas of reporting and risk control guidelines, limitations, ratios, and capital requirements.

Since Credicorp s Common Shares are listed on the Lima Stock Exchange in addition to the New York Stock Exchange, Credicorp is subject to certain reporting requirements of the *Comision Nacional Supervisora de Empresas y Valores* (CONASEV), the securities market regulator, and the Lima Stock Exchange. See Item 9. The Offer and Listing (C) Markets The Lima Stock Exchange (ii) 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 Law 26702 are effected by periodic resolutions issued by the SBS. See (10) 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, regulations or their own institutions bye-laws.

CONASEV is the Peruvian government institution charged with promoting the securities markets, ensuring fair competition in the markets, supervising the proper management of businesses that trade in the markets and regulating their activities and accounting practices. 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

Perú 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 by the law. The SBS is also responsible for supervising the Central Bank to ensure that it abides by its statutory charter and bye-laws. Law 27328, enacted in July 2000, transferred to the SBS the supervision and regulation of the private pension fund companies (AFPs) which had been supervised and regulated by a specialized superintendency since the inception of the system in 1992.

The SBS is granted administrative, financial and operating autonomy. Its objectives include protecting the public interest, ensuring the financial stability of the institutions over which it has authority, and punishing violators of its regulations. Its responsibilities include: (i) reviewing and approving, with the assistance of the Central Bank, the establishment and organization of subsidiaries of the institutions it regulates; (ii) overseeing mergers, dissolution, and reorganization of banks, financial institutions, and insurance companies; (iii) supervising financial, insurance and related companies from which information on an individual or consolidated basis is required, through changes in ownership and management control (this supervision also applies to non-bank holding companies, such as Credicorp); (iv) reviewing the by-laws and amendments thereto of these companies; (v) setting forth criteria governing the transfer of bank shares, when permitted by law, for valuation of assets and liabilities and for minimum capital requirements; and (vi) controlling the *Central de Riesgos* (Bank Risk Assessment Center), to which all banks are legally required to provide information regarding all businesses and individuals with whom they deal without regard to the amount of credit risk (the information provided is made available to all banks to allow them to monitor individual borrowers overall exposure to Perú s banks). In addition to supervising BCP, the SBS supervises Credicorp on the basis that it is a financial conglomerate conducting the majority of its operations in Perú.

Management of Operational Risk

SBS Resolution No. 006, enacted in January 2002, approved guidelines for the management of operational risk, which includes a broad range of risks. Resolution No. 006 defines operational risks as those dealing with the possibility of suffering financial losses due to deficiencies in internal procedures, information technology or personnel, or the occurrence of adverse external events. It also establishes responsibilities for developing policies and procedures to identify, measure, control and report such risks. Banks are required to adequately manage risks involved in the performance of their operations and services in order to minimize possible financial losses due to inadequate or non-existent policies or procedures.

Credicorp, following these SBS guidelines as well as guidelines issued by the Basel Committee on Banking Supervision and the advice of international consultants, has set up at BCP a specialized unit in charge of introducing advanced operational risk control procedures and created a new Operational Risk Committee. Credicorp intends to be guided by the risk control standards of international financial institutions noted for their leadership in this field, with the overall objective of implementing an efficient and permanent monitoring system for the control of operational risks, while actual management of risk control procedures is conducted by the areas that carry out critical activities. There are ongoing initiatives for the establishment of operational risk management procedures at other Credicorp subsidiaries.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, Credicorp will be required to make certain certifications regarding its internal controls over financial reporting as of December 31, 2006. Credicorp has developed an internal methodology, which is in accordance with Public Company Accounting Oversight Board-PCAOB, Accounting Standard 2, to evaluate the effectiveness of its internal controls over financial reporting. In addition, Credicorp is implementing computer programs to allow for the continuous monitoring, assessment and documentation of its internal controls. During 2006, Credicorp expects to complete its evaluation of internal controls over financial reporting and to be able to obtain the attestation of its independent auditors. See Item 15. Controls and Procedures.

Capital Adequacy Requirements

Since the approval of Legislative Decree 637 in 1991, the SBS has issued capital adequacy requirements for credit institutions, adopting a framework structurally similar to that proposed by the Basel Accord. Weights assigned to various classes of assets and the contents of the classifications were initially more stringent under Legislative Decrees 637 and 770 than under the Basel Accord. Law 26702 has adopted criteria similar to the Basel Accord and provides for five categories of assets, with different risk weights assigned to each category. The categories range from risk-free assets, to which a weighting of 0% is assigned, to assets, which require a weighing of 100%. Banks are required to prepare and submit to the SBS, within the first 15 days of each month, a report analyzing the bank s assets 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.

According to Article 184 of Law 26702, regulatory capital consists of the sum of (i) paid-in capital, legal reserves, discretionary reserves (if any), reserves incurred but not specifically identified loan 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 consolidated subsidiaries. According to Article 184, regulatory capital can be segmented and applied to cover credit risks and market risks. Beginning in March 1999, the SBS issued regulations requiring the segregation of regulatory capital to cover foreign exchange risk exposure, and, starting in June 30, 2000, to cover risk related to investments in equity shares.

Law 26702 requires that the total amount of risk-weighted assets not exceed 11 times the regulatory capital of the bank, meaning that BCP must maintain regulatory capital at a level of at least 9.09% of its total risk-weighted assets. The limit of 11 times risk-weighted assets to regulatory capital was phased in, becoming effective in December 1999. Any bank that is not in compliance with the capital adequacy requirements of Law 26702 is required to post a special deposit with the Central Bank, which is frozen until such bank is within the capital adequacy requirements. Regulatory capital in excess of credit risk requirements may be applied to cover market risks. In general, foreign exchange risk positions require a coverage of 9.09% of regulatory capital. As of December 31, 2005, BCP s unconsolidated amount of risk-weighted assets was 9.1 times regulatory capital, or regulatory capital was 11.0% of risk-weighted assets which included US$280.1 million of market risk assets.

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

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, 2005, BCP s unconsolidated legal reserve was S/.546.5 million (US$159.3 million), equivalent to 42.5% 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 loan reserves and does not allow for the inclusion of collateral in determining the net amount of outstanding credit risk subject to provision. Starting in July 2006, SBS s Resolution No. 41-2005, enacted in January 2005, will require additional provisions for credits subject to foreign exchange risk, which are recorded for local purposes. See (12) Selected Statistical Information (iii) Loan Portfolio Classification of the Loan Portfolio. Credicorp estimates and records its allowance for loan losses according to the criteria set out in IAS 39, adjusting the local provisions as necessary. See Note 3(f) to the Credicorp Consolidated Financial Statements.

Provisions for Country Risk

SBS Resolution No. 505, enacted in June 2002, requires the establishment of provisions for exposure to country risk, which is defined as including sovereign risk, transfer risk and expropriation or nationalization risk, that may affect operations with companies or individuals in foreign countries. The SBS has also established guidelines for the procedures and responsibilities for the management of country risk. Credicorp estimates and records its allowance for country risk according to the criteria set out in IAS 39. See Note 3(f) to the Credicorp Consolidated Financial Statements.

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 require 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. Since April 2004, the Central Bank has required reserves on amounts due to foreign banks and other foreign financial companies, which were not previously considered obligations. The regulation excludes funding from other central banks, governments or multilateral lending agencies.

Since August 2000 the rate of the legal reserve has been 6% (formerly 7%) of the obligations described above. The reserve may be kept in cash by the corresponding bank or finance company, with a minimum of 1% held in deposits in current accounts in the Central Bank. Additional reserves for obligations in foreign currency are determined in two steps. First, foreign currency obligations exceeding the base amount, set as the average daily balance during September 2004 (previously February 2004), are subject to a 30% reserve requirement (45% during 1997). In the second step, the obligations equal to or less than the base amount average balance are subject to a reserve requirement average rate of approximately 33% since August 2000. This average rate was approximately 43% during 1997, decreasing 4.5 percentage points in the last months of 1998, and again by 3 percentage points in August 2000. The legal reserve (6%) and the additional reserve must be calculated in Nuevos Soles for obligations in local currency and in U.S. Dollars for obligations in foreign currency. The Central Bank oversees compliance with the reserve requirements.

The Central Bank also establishes the interest rate payable on the reserves that exceed the legal 6% requirement, which are mainly on foreign currency deposits. The Central Bank periodically increased the applicable interest rate during 2005, from 3.00% as of 2004 to 3.25% as of December 31, 2005. Since December 31, 2005 the interest rate has increased 25 bps. on a monthly basis, reading 4.50% as of May 30, 2006. The applicable interest rate is expected to be periodically revised by the Central Bank in accordance with monetary policy objectives.

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

Law 26702 sets maximum amounts of credit that each financial institution may extend to a single borrower. For purposes of Law 26702, a single borrower includes an individual or an economic group. An economic group constituting a single or common risk, according to Law 26702, includes a person, such person s close relatives and companies in which such person or close relatives have significant share ownership or decision-making capability. According to current regulations, shareholders who own or control directly or indirectly at least one-tenth of a company s shares are considered significant shareholders. Significant decision-making capability is deemed to be present when, among other factors, a person or group can exercise material and continuous influence upon the decisions of a company, when a person or company holds seats on the Board of Directors or has principal officers in another company, 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 credit extended to one borrower vary according to the type of borrower and the collateral received. The limit applicable to credit for 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, 2005, the 10.0% credit limit per borrower of BCP, unconsolidated, was S/.186.2 million (US$54.3 million) for unsecured loans, and the 30.0% limit amounted to S/.558.6 million (US$162.9 million) for secured loans. If a financial institution exceeds these limits, the SBS may impose a fine on the institution.

In certain limited circumstances, 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. However, 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 of financial institutions. In 1997, the SBS and CONASEV enacted regulations with precise definitions of indirect ownership, related parties and economic groups, which serve as the basis for determining limits on transactions with related parties and affiliates. These regulations also provide the basis for the subsequent development of specific standards for the supervision of financial and mixed conglomerates formed by financial institutions.

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

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

Ownership Restrictions

Law 26702 establishes certain restrictions on the ownership of a bank s shares. Banks must have at least two unrelated shareholders at all times. Restrictions are placed on the ownership of shares of any bank by persons that have committed certain crimes, as well as by public officials who have supervisory powers over banks or who 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 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 or economic solvency. The decision of the SBS on this matter is final, and cannot be overturned in the courts. If a transfer is effected without obtaining the prior approval of the SBS, the purchaser may be fined an amount equivalent to the value of the securities transferred. In addition, the purchaser will be required to sell the securities within thirty days, or the fine will double, and the purchaser is disqualified from exercising its voting rights at shareholders meetings. Foreign investors receive the same treatment as Peruvian nationals and are subject to the limitations described above.

Risk Rating

Law 26702 and SBS Resolution No. 672, enacted in October 1997, require that all financial companies be rated by at least two risk rating companies on a semi-annual basis (updated in March and September), in addition to the SBS s own assessment. Criteria to be considered in the rating include risk management and control procedures, loan quality, financial strength, profitability, liquidity and financial efficiency. Five risk categories are assigned, from A , lowest risk, to E , highest risk, allowing for sub-categories within each letter. As of December 2005, BCP was assigned the A risk category by its three rating agencies, Pacific Credit Rating, Equilibrium Clasificadora de Riesgo and Apoyo and Associates International.

Deposit Fund

Law 26702 provides for mandatory deposit insurance to protect all types of deposits of financial institutions by establishing the *Fondo de Seguro de Depósitos* (Deposit Insurance Fund, or the Fund) for individuals, associations, not-for-profit companies, and demand deposits of non-financial companies. Financial institutions must pay an annual premium calculated on the basis of the type of deposits accepted by the entity and the risk classification of such entity, made by the SBS and at least two independent risk-rating agencies. The annual premiums begin at 0.45% of total funds on deposit under the coverage of the Fund, if BCP is classified in the lowest risk category, and increase to 1.45% applicable to banks in the highest risk category. The maximum amount that a customer is entitled to recover from the Fund is S/.75,109 from March through May 2006.

Intervention by the SBS

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

The SBS intervention regime halts a bank s operations and may last for a maximum of 45 days, which may be extended for a second period of up to 45 additional days, during which time the SBS may institute measures such as: (i) canceling losses by reducing reserves, capital and subordinated debt; (ii) segregating certain assets and liabilities for transfer to another financial institution; and (iii) merging the intervened bank with another acquiring institution according to the program established by Urgent Decree No. 108-2000, enacted in November 2000. After the intervention, the SBS will proceed to liquidate BCP except if the preceding option (iii) was applied.

(iii) ASHC

General

Atlantic Security Bank (ASB), a subsidiary of ASHC, is a Cayman Islands bank with a branch in Panama. ASB is regulated by the regulatory authorities of the Cayman Islands and the Panama branch is regulated by the banking authorities of Panama. The supervision of ASB by Cayman Islands and Panamanian regulatory authorities is less extensive 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 registered as an exempted company and licensed in the Cayman Islands pursuant to the Banks and Trust Companies Law (2003 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 Cayman Islands Monetary Authority (the Authority), 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 Authority expects observance of prudent banking practices. 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 a 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-in 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 subject to 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 annual fees; (iii) to file quarterly with the Authority certain prescribed forms; (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) for 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) for 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) for any significant change in the business plan filed on the filing of the original License application, or (iv) to open a subsidiary, branch, agency or representative office outside the Cayman Islands. 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) BCB

The Bolivian banking system operates under the *Ley de Bancos y Entidades Financieras* (the Law of Banks and Financial Entities) No. 1488, enacted on April 14, 1993, and modified by Law 2297, of December 20, 2001, which grants supervisory powers to the Superintendency of Banks and Financial Entities. Additionally, Banco Central de Bolivia (the Central Bank of Bolivia) regulates financial intermediation and deposit gathering activities, determines monetary and foreign exchange policies, and establishes reserve requirements on deposits and capital adequacy guidelines that banks and financial companies must follow. The *Superintendencia de Pensiones, Valores y Seguros* (the Pensions, Securities and Insurance Superintendency) supervises brokerage activities and mutual funds management, as conducted through BCB s subsidiaries Credibolsa S.A. and Credifondo S.A., respectively, which operate under the *Ley del Mercado de Valores* (the Securities Markets Law) No. 1834, enacted on March 31, 1998.

(v) PPS

Overview

The operations of PPS are regulated by Law 26702 and the SBS. Peruvian insurance companies must regularly submit reports to the SBS regarding their operations. In addition, the SBS conducts on-sight reviews of the performance 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 the 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.

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

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.

Solvency Requirements

Pursuant to Law 26702, the SBS regulates the solvency margin of Peruvian insurance companies. The solvency margin is 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 be the greater of (a) the solvency margin, or (b) the minimum capital requirement, as established by law. The required amount of solvency equity is recalculated at least quarterly. 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 income before taxes, until the reserve reaches at least 35% of paid-in capital.

Reserve Requirements

Pursuant to Law 26702 and regulations issued by the SBS, Peruvian insurance companies must establish Technical Reserves. See (6) Pacífico Peruano Suiza (ii) Claims and Reserves. Law 26702 also requires insurance companies to create a reserve for IBNR claims, which are reflected as a liability, net of recoveries and reinsurance, in the Credicorp Consolidated Financial Statements, and estimated by using generally accepted actuarial reserving methods. See Note 3(e) to the Credicorp Consolidated Financial Statements. Finally, PPS is required by the SBS to establish pre-event reserves for risk of catastrophes, which, in accordance with IFRS principles, are not considered in Credicorp s financial statements. See (6) Pacífico Peruano Suiza (ii) Claims and Reserves.

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 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 combined. In general, no more than 20% of an insurance company s solvency equity and Technical Reserves combined 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 must be rated by an internationally recognized credit rating company. Securities owned by insurance companies must be registered in the Public Registry of Securities of Perú or the analogous registry 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 (11) Supervision and Regulation (ii) BCP Overview.

(12) 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 in Item 5. Operating and Financial Review and Prospects (A) Operating Results and the Credicorp Consolidated Financial Statements and the notes thereto. The statistical information and discussion and analysis presented below for, 2001, 2002, 2003, 2004 and 2005 reflect the consolidated financial position of Credicorp and its subsidiaries, including BCP, ASHC, PPS and Grupo Crédito, as of December 31, 2001, 2002, 2003, 2004 and 2005 and the results of operations for 2001, 2002, 2003, 2004 and 2005.

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

The tables below set forth selected statistical information based on Credicorp s average balance sheets prepared on a consolidated basis. Except as otherwise indicated, average balances, when used, have been classified by currency (Nuevos Soles or foreign currency (primarily U.S. Dollars)), rather than by the domestic or international nature of the balance. In addition, except where 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 converted into U.S. Dollars using the applicable SBS exchange rate as of the date of such balance. Nominal average interest rates have, in certain cases, been restated as real average interest rates using the formula described below. Management believes that adjusting average balances and average interest rates for inflation in this manner provides more meaningful information for investors than unadjusted average balances and rates and does not believe that the quarterly averages present trends materially different from those that would be presented by daily averages.

Real Average Interest Rates

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

Where:

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

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

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

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

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

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, 2003, 2004 and 2005.

Average Balance Sheets
Assets, Interest Earned and Average Interest Rates

	Year ended December 31,			
	2003			
	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate
	(U.S. Dollars in thousands, except percentages)			
ASSETS:				
Interest-earning assets:				
Deposits in Central Bank				
Nuevos Soles	US$ 2,005	US$ 6	-3.99%	0.30%
Foreign Currency	1,191,117	13,742	-7.38	1.15
Total	1,193,122	13,748	-7.37	1.15
Deposits in other banks				
Nuevos Soles	17,475	1,989	8.67	11.38
Foreign Currency	389,137	3,089	-3.09	0.79
Total	406,612	5,078	-2.59	1.25
Investment securities				
Nuevos Soles	273,416	13,388	2.34	4.90
Foreign Currency	1,062,548	47,067	0.40	4.43
Total	1,335,964	60,455	0.80	4.53
Total loans (1)				
Nuevos Soles	692,580	127,774	15.56	18.45
Foreign Currency	3,755,212	330,052	4.60	8.79
Total	4,447,792	457,826	6.30	10.29
Total dividend-earning assets				
Nuevos Soles	42,164	330	-1.68	0.78
Foreign Currency	75,766	10,848	9.91	14.32
Total	117,930	11,178	5.77	9.48
Total interest-earning assets				
Nuevos Soles	1,027,640	143,487	11.21	13.99
Foreign Currency	6,475,780	404,798	2.16	6.25
Total	7,501,418	548,285	3.39	7.31
Noninterest-earning assets:				
Cash and due from banks				
Nuevos Soles	95,264			
Foreign Currency	157,670			
Total	252,934			
Reserves for loan losses				
Nuevos Soles	(53,333)			
Foreign Currency	(326,019)			
Total	(379,352)			
Premises and equipment				
Nuevos Soles	192,912			
Foreign Currency	77,983			
Total	270,895			
Other non-interest-earning assets				
Nuevos Soles	167,980			
Foreign Currency	452,646			
Total	620,626			
Total non-interest-earning assets				
Nuevos Soles	402,823			
Foreign Currency	362,280			
Total	765,103			
Total average assets				
Nuevos Soles	1,428,463	143,487	7.37	10.03
Foreign Currency	6,838,060	404,799	1.81	5.92
Total	8,266,523	548,285	2.77	6.63

(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 interest is included.

	Year ended December 31,			
	2004			
	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate
	(U.S. Dollars in thousands, except percentages)			
ASSETS:				
Interest-earning assets:				
Deposits in Central Bank				
Nuevos Soles	US$ 5,892	US$ 11	-3.20%	0.19%
Foreign Currency	1,031,626	15,346	-7.08	1.49
Total	1,037,518	15,357	-7.05	1.48
Deposits in other banks				
Nuevos Soles	17,895	791	0.89	4.42
Foreign Currency	416,413	3,998	-7.55	0.96
Total	434,308	4,789	-7.20	1.10
Investment securities				
Nuevos Soles	560,910	21,547	0.33	3.84
Foreign Currency	1,186,002	72,356	-2.85	6.10
Total	1,746,912	93,903	-1.83	5.38
Total loans (1)				
Nuevos Soles	691,749	119,512	13.31	17.28
Foreign Currency	3,823,383	307,025	-1.09	8.03
Total	4,515,132	426,537	1.12	9.45
Total dividend-earning assets				
Nuevos Soles	99,098	833	-2.57	0.84
Foreign Currency	62,237	1,423	-6.34	2.29
Total	161,335	2,256	-4.02	1.40
Total interest-earning assets				
Nuevos Soles	1,375,544	142,694	7.56	10.37
Foreign Currency	6,519,661	400,148	-2.99	6.14
Total	7,895,205	542,842	-1.16	6.88
Noninterest-earning assets:				
Cash and due from banks				
Nuevos Soles	98,764			
Foreign Currency	161,976			
Total	260,740			
Reserves for loan losses				
Nuevos Soles	(40,008)			
Foreign Currency	(242,115)			
Total	(282,123)			
Premises and equipment				
Nuevos Soles	195,230			
Foreign Currency	57,960			
Total	253,190			
Other non-interest-earning assets				
Nuevos Soles	175,316			
Foreign Currency	261,810			
Total	437,126			
Total non-interest-earning assets				
Nuevos Soles	429,301			
Foreign Currency	239,630			
Total	668,931			
Total average assets				
Nuevos Soles	1,804,845	142,694	4.26	7.91
Foreign Currency	6,759,291	400,148	-3.02	5.92
Total	8,564,136	542,842	-1.48	6.34

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(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 interest is included.

	Year ended December 31,			
	2005			
	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate
	(U.S. Dollars in thousands, except percentages)			
ASSETS:				
Interest-earning assets:				
Deposits in Central Bank				
Nuevos Soles	US$ 5,361	US$ 50	-0.55%	0.93
Foreign Currency	1,118,471	24,004	5.19	2.15
Total	1,123,832	24,054	5.16	2.14
Deposits in other banks				
Nuevos Soles	31,926	1,073	1.84	3.36
Foreign Currency	443,948	12,000	5.76	2.70
Total	475,874	13,073	5.50	2.75
Investment securities				
Nuevos Soles	1,221,669	51,222	2.66	4.19
Foreign Currency	1,290,919	73,138	8.81	5.67
Total	2,512,588	124,360	5.82	4.95
Total loans (1)				
Nuevos Soles	831,393	132,692	14.26	15.96
Foreign Currency	3,888,576	314,700	11.31	8.09
Total	4,719,969	447,392	11.83	9.48
Total dividend-earning assets				
Nuevos Soles	65,234	2,252	1.93	3.45
Foreign Currency	65,511	1,301	5.02	1.99
Total	130,745	3,553	3.48	2.72
Total interest-earning assets				
Nuevos Soles	2,155,583	187,289	7.09	8.69
Foreign Currency	6,807,425	425,143	9.41	6.25
Total	8,963,008	612,432	8.85	6.83
Noninterest-earning assets:				
Cash and due from banks				
Nuevos Soles	135,168			
Foreign Currency	179,250			
Total	314,418			
Reserves for loan losses				
Nuevos Soles	(33,020)			
Foreign Currency	(191,132)			
Total	(224,152)			
Premises and equipment				
Nuevos Soles	177,012			
Foreign Currency	66,559			
Total	243,571			
Other non-interest-earning assets				
Nuevos Soles	141,397			
Foreign Currency	320,424			
Total	461,821			
Total non-interest-earning assets				
Nuevos Soles	420,557			
Foreign Currency	375,101			
Total	795,658			
Total average assets				
Nuevos Soles	2,576,140	187,289	5.70	7.27
Foreign Currency	7,182,526	425,143	9.07	5.92
Total	9,758,666	612,432	8.18	6.28

(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 interest is included.

Average Balance Sheets
Liabilities, Interest Paid and Average Interest Rates

	Year ended December 31,			
	2003			
	Average Balance	Interest Paid	Real Avg. Rate	Nominal Avg. Rate
	(U.S. Dollars in thousands, except percentages)			
LIABILITIES				
Interest-bearing liabilities:				
Demand deposits				
Nuevos Soles(1)	US$ 319,417	2,704	-1.59%	0.85%
Foreign Currency(1)	919,963	1,825	-3.69	0.20
Total	1,239,380	4,529	-3.15	0.37
Savings deposits				
Nuevos Soles(1)	301,734	2,753	-1.53	0.91
Foreign Currency(1)	1,223,843	3,575	-3.60	0.29
Total	1,525,577	6,328	-3.19	0.41
Time deposits				
Nuevos Soles(1)	416,239	10,845	0.12	2.61
Foreign Currency(1)	2,063,562	78,253	-0.24	3.79
Total	2,479,801	89,098	-0.18	3.59
Due to banks and correspondents				
Nuevos Soles	124,852	12,085	7.03	9.68
Foreign Currency	532,183	23,472	0.36	4.41
Total	657,035	35,557	1.62	5.41
Bonds				
Nuevos Soles	110,669	10,330	6.69	9.33
Foreign Currency	315,284	17,738	1.52	5.63
Total	425,953	28,068	2.87	6.59
Total interest-bearing liabilities				
Nuevos Soles	1,272,910	38,717	0.55	3.04
Foreign Currency	5,054,835	124,863	-1.51	2.47
Total	6,327,745	163,580	-1.10	2.59
Non-interest-bearing liabilities and shareholders equity:				
Other liabilities				
Nuevos Soles	45,045			
Foreign Currency	972,739			
Total	1,017,784			
Equity holders of the parent				
Nuevos Soles				
Foreign Currency	852,728			
Total	852,728			
Minority Interest				
Nuevos Soles				
Foreign Currency	68,266			
Total	68,266			
Total non-interest-bearing liabilities and shareholders equity				
Nuevos Soles	45,045			
Foreign Currency	1,893,773			
Total	1,938,778			
Total average liabilities and shareholders equity				
Nuevos Soles	1,317,955	38,717	-0.45	2.94
Foreign Currency	6,948,568	124,863	-2.16	1.80
Total	8,266,523	163,580	-1.74	1.98

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

	Year ended December 31,			
	2004			
	Average Balance	Interest Paid	Real Avg. Rate	Nominal Avg. Rate
	(U.S. Dollars in thousands, except percentages)			
LIABILITIES				
Interest-bearing liabilities:				
Demand deposits				
Nuevos Soles(1)	US$ 349,584	2,911	-2.58%	0.83%
Foreign Currency(1)	758,990	1,873	-8.21	0.25
Total	1,108,574	4,784	-6.43	0.43
Savings deposits				
Nuevos Soles(1)	277,051	2,476	-2.52	0.89
Foreign Currency(1)	1,024,073	3,740	-8.10	0.37
Total	1,301,124	6,216	-6.91	0.48
Time deposits				
Nuevos Soles(1)	426,074	17,094	0.49	4.01
Foreign Currency(1)	2,210,780	67,871	-5.63	3.07
Total	2,636,854	84,965	-4.64	3.22
Due to banks and correspondents				
Nuevos Soles	134,280	11,257	4.72	8.38
Foreign Currency	539,268	25,425	-4.12	4.71
Total	673,548	36,682	-2.36	5.45
Bonds				
Nuevos Soles	122,006	9,658	4.27	7.92
Foreign Currency	298,816	17,993	-2.92	6.02
Total	420,822	27,651	-0.84	6.57
Total interest-bearing liabilities				
Nuevos Soles	1,308,995	43,396	-0.18	3.32
Foreign Currency	4,831,927	116,902	-6.22	2.42
Total	6,140,922	160,298	-4.93	2.61
Non-interest-bearing liabilities and shareholders equity:				
Other liabilities				
Nuevos Soles	45,773			
Foreign Currency	1,334,980			
Total	1,380,753			
Equity holders of the parent				
Nuevos Soles				
Foreign Currency	967,288			
Total	967,288			
Minority Interest				
Nuevos Soles				
Foreign Currency	75,173			
Total	75,173			
Total non-interest-bearing liabilities and shareholders equity				
Nuevos Soles	45,773			
Foreign Currency	2,377,441			
Total	2,423,214			
Total average liabilities and shareholders equity				
Nuevos Soles	1,354,768	44,706	-0.19	3.30
Foreign Currency	7,209,368	115,592	-6.97	1.60
Total	8,564,136	160,298	-5.90	1.87

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

	Year ended December 31,			
	2005			
	Average Balance	Interest Paid	Real Avg. Rate	Nominal Avg. Rate

	(U.S. Dollars in thousands, except percentages)			
LIABILITIES				
Interest-bearing liabilities:				
Demand deposits				
Nuevos Soles(1)	US$ 641,920	US$ 6,056	-0.54%	0.94%
Foreign Currency(1)	926,710	10,861	4.18	1.17
Total	1,568,630	16,917	2.25	1.08
Savings deposits				
Nuevos Soles(1)	452,826	3,495	-0.71	0.77
Foreign Currency(1)	1,118,117	5,739	3.50	0.51
Total	1,570,943	9,234	2.29	0.59
Time deposits				
Nuevos Soles(1)	562,148	24,300	2.79	4.32
Foreign Currency(1)	2,944,558	76,954	5.67	2.61
Total	3,506,706	101,254	5.21	2.89
Due to banks and correspondents				
Nuevos Soles	159,892	3,162	0.48	1.98
Foreign Currency	448,419	18,260	7.17	4.07
Total	608,311	21,422	5.41	3.52
Bonds				
Nuevos Soles	122,521	9,655	6.30	7.88
Foreign Currency	295,821	14,677	8.08	4.96
Total	418,342	24,332	7.56	5.82
Total interest-bearing liabilities				
Nuevos Soles	1,939,307	46,668	0.90	2.41
Foreign Currency	5,733,625	126,491	5.25	2.21
Total	7,672,932	173,159	4.15	2.26
Non-interest-bearing liabilities and shareholders equity:				
Other liabilities				
Nuevos Soles	108,140			
Foreign Currency	770,712			
Total	878,852			
Equity holders of the parent				
Nuevos Soles				
Foreign Currency	1,133,773			
Total	1,133,773			
Minority Interest				
Nuevos Soles				
Foreign Currency	93,109			
Total	93,109			
Total non-interest-bearing liabilities and shareholders equity				
Nuevos Soles	591,495			
Foreign Currency	1,494,239			
Total	2,085,734			
Total average liabilities and shareholders equity				
Nuevos Soles	2,530,802	46,668	0.78	2.28
Foreign Currency	7,227,864	126,491	4.66	1.64
Total	9,758,666	173,159	3.85	1.77

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

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

	2004/2003			2005/2004		
	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	12	(7)	5	(1)	40	39
Foreign Currency	(1,840)	3,444	1,604	1,292	7,366	8,658
Total	(1,828)	3,437	1,609	1,291	7,406	8,697
Deposits in other banks						
Nuevos Soles	47	(1,245)	(1,198)	620	(338)	282
Foreign Currency	201	692	909	264	7,738	8,002
Total	248	(537)	(289)	884	7,400	8,284
Investment securities						
Nuevos Soles	14,097	(5,938)	8,159	25,365	4,310	29,675
Foreign Currency	5,473	19,816	25,289	6,390	(5,608)	782
Total	19,570	13,878	33,448	31,755	(1,298)	30,457
Total loans(1)						
Nuevos Soles	(146)	(8,116)	(8,262)	24,126	(10,946)	13,180
Foreign Currency	6,023	(29,050)	(23,027)	5,235	2,440	7,675
Total	5,877	(37,166)	(31,289)	29,361	(8,506)	20,855
Total dividend-earning assets						
Nuevos Soles	443	60	503	(285)	1,704	1,419
Foreign Currency	(1,936)	(7,489)	(9,425)	77	(199)	(122)
Total	(1,493)	(7,429)	(8,922)	(208)	1,505	1,297
Total interest-earning assets						
Nuevos Soles	48,577	(49,370)	(793)	80,918	(36,323)	44,595
Foreign Currency	3,869	(7,519)	(4,650)	17,662	7,333	24,995
Total	51,446	(56,889)	(5,443)	98,580	(28,990)	69,590
Interest Expense:						
Demand deposits						
Nuevos Soles	255	(155)	100	2,345	907	3,252
Foreign Currency	(319)	474	155	438	8,443	8,881
Total	(64)	319	255	2,783	9,350	12,133
Savings deposits						
Nuevos Soles	(225)	(52)	(371)	1,571	(398)	1,113
Foreign Currency	(584)	749	259	352	1,553	1,905
Total	(809)	697	(112)	1,863	1,155	3,018
Time deposits						
Nuevos Soles	256	7,504	7,760	5,942	(247)	5,695
Foreign Currency	5,583	(17,476)	(11,893)	22,025	(11,431)	10,594
Total	5,839	(9,972)	(4,133)	27,967	(11,678)	16,289
Due to banks and correspondents and issued bonds						
Nuevos Soles	913	(1,741)	(828)	2,147	(10,242)	(8,095)
Foreign Currency	312	1,641	1,953	(4,283)	(2,882)	(7,165)
Total	1,225	(100)	1,125	(2,136)	(13,124)	(15,260)
Bonds						
Nuevos Soles	1,058	(1,730)	(672)	41	(44)	(3)
Foreign Currency	(926)	1,181	255	(180)	(3,136)	(3,316)
Total	132	(549)	(417)	(139)	(3,180)	(3,319)
Total interest-bearing liabilities						
Nuevos Soles	1,098	4,891	5,989	21,527	(19,565)	1,962
Foreign Currency	(5,506)	(3,765)	(9,271)	21,571	(10,672)	10,889
Total	(4,408)	1,126	(3,282)	43,098	(30,237)	12,861

(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 interest 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,		
	2003	**2004**	**2005**
	(U.S. Dollars in thousands, except percentages)		
Average interest-earning assets			
Nuevos Soles	1,025,640	1,375,544	2,155,583
Foreign Currency	6,475,780	6,519,661	6,807,425
Total	7,501,420	7,895,205	8,963,008
Net interest income			
Nuevos Soles	104,770	97,988	140,621
Foreign Currency	279,935	284,556	298,652
Total	384,705	382,544	439,273
Gross yield (1)			
Nuevos Soles	13.96%	10.37%	8.69%
Foreign Currency	6.25%	6.14%	6.25%
Weighted average rate	7.31%	6.88%	6.83%
Net interest margin (2)			
Nuevos Soles	10.20%	7.12%	6.52%
Foreign Currency	4.32%	4.36%	4.39%
Weighted-average rate	5.13%	4.85%	4.90%
Yield spread (3)			
Nuevos Soles	10.92%	6.96%	6.28%
Foreign Currency	3.78%	3.75%	4.04%
Weighted-average rate	4.72%	4.27%	4.58%

(1) Gross yield is interest income divided by average interest-earning assets.
(2) Net interest margin represents net interest income divided by average interest-earning assets.
(3) Yield spread, on a nominal basis, represents the difference between gross yield on average interest-earning assets and average cost of interest-bearing liabilities.

Interest-Earning Deposits With Other Banks

The following table shows the short-term funds deposited with other banks broken down by currency as of the dates indicated. Deposits held in countries other than Perú 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 using the applicable SBS exchange rate as of the date of relevant balance.

	At December 31,		
	2003	**2004**	**2005**
	(U.S. Dollars in thousands)		
Nuevo Sol-denominated:			
Peruvian Central Bank	US$ 288	US$ 17,142	US$ 1,224
Commercial banks	18,135	31,379	55,941
Total Nuevo Sol-denominated	US$ 18,423	US$ 48,521	US$ 57,165
Foreign Currency-denominated:			
Peruvian Central Bank (U.S. Dollars)	US$ 958,925	US$ 1,085,349	US$ 1,597,929
U.S. Dollars, other	407,128	455,178	632,698
Other	1,619	4,852	8,076
Total Foreign Currency-denominated	US$ 1,367,672	US$ 1,545,379	US$ 2,238,703

Total	US$	1,386,095	US$	1,593,900	US$	2,295,868

(ii) Investment Portfolio

The following table shows the fair value of Credicorp s trading and available-for-sale investment securities by type at the dates indicated. See Notes 5 and 6 to the Credicorp Consolidated Financial Statements.

	At December 31,					
	2003		2004		2005	
	(U.S. Dollars in thousands)					
Nuevo Sol-denominated:						
Peruvian government bonds	US$	28,196	US$	56,594	US$	129,137
Equity securities		65,617		112,785		144,919
Bonds		2,212		67,878		91,065
Peruvian Central Bank certif. notes		375,713		682,418		835,287
Other investments		15,570		5,994		40,487
Total Nuevo Sol denominated	US$	487,308	US$	925,669	US$	1,240,895
Foreign Currency-denominated:						
Equity securities	US$	59,535	US$	68,573	US$	80,100
Bonds		952,039		610,402		891,666
Investment in Peruvian debt		34,822		357,145		185,138
Peruvian Central Bank certif. notes		0		0		310,528
Other investment		206,548		257,458		163,894
Total Foreign Currency-denominated	US$	1,252,944	US$	1,293,578	US$	1,631,326
Total securities holdings	US$	1,740,252	US$	2,219,247	US$	2,872,221

(1) The allowance for decline in value of marketable securities is debited from the value of each individual security.

The weighted-average yield on Credicorp s Nuevo Sol-denominated interest-earning investment portfolio was 4.9% in 2003, 3.8% in 2004, and 4.2% in 2005. The weighted-average yield on Credicorp s foreign currency-denominated portfolio was 4.4% in 2003, 6.1% in 2004 and 5.7% in 2005. The total weighted-average yield of Credicorp s portfolio was 4.5% in 2003, 5.4% in 2004 , and 5.0% in 2005.

The weighted-average yield on Credicorp s Nuevo Sol-denominated dividend-earning assets investment portfolio was 13.9% in 2003, 10.4% in 2004, and 8.7% in 2005. The weighted-average yield on Credicorp s foreign currency-denominated portfolio was 2.1% in 2003, 6.1% in 2004 and 6.3% in 2005. The total weighted-average yield of Credicorp s portfolio was 7.3% in 2003, 6.9% in 2004 and 6.8% in 2005.

The following table shows the maturities of Credicorp s trading and available-for-sale investment securities by type at December 31, 2005:

	Within 1 year		After 1 year but within 3years		Maturing After 3 years but within 5 years		Maturing After 5 years but within 10 years		After 10 Years		Total	
	(U.S. Dollars in thousands, except percentages)											
Nuevo Sol-denominated:												
Peruvian government bonds	US$	38,697	US$	4,477	US$	2,985	US$	15,300	US$	67,678	US$	129,137
Equity securities (1)		144,920										144,920
Bonds and debentures		22,057		24,913		12,236		7,026		24,833		91,065
Peruvian Central Bank certif. notes		742,156		93,130								835,286
Other investments		32,711		912		6,864						40,487
Total Nuevo Sol-denominated	US$	980,541	US$	123,432	US$	22,085	US$	22,326	US$	92,511		1,240,895

Foreign Currency-denominated:												
Peruvian Government Bonds		149		7,590				58,045		119,354		185,138
Equity securities (1)		80,100										80,100
Bonds		277,540		213,161		122,357		94,684		183,924		891,666
Peruvian Central Bank certif.. notes		310,528		0		0		0		0		310,528
Other investments		144,113		1,786		6,078		6,917		5,000		163,894
Total Foreign Currency denominated	US$	812,430	US$	222,537	US$	128,435	US$	159,646	US$	308,278	US$	1,631,326
Total securities holdings:	US$	1,792,971	US$	345,969	US$	150,520	US$	181,972	US$	400,789	US$	2,872,221
Weighted average yield												4.84%

(1) Equity securities in Credicorp s trading account are categorized as maturing within one year.

Maturities of Credicorp s investments securities classified by trading and available for sale, as of December 31, 2005 are described in Item 11. Quantitative and Qualitative Disclosures about Market Risk.

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

Credicorp determines that an available-for-sale investment is impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged requires the management s judgment. In making this judgment, Credicorp evaluates among other factors, the normal volatility in share price, evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. When a permanent impairment is present, the related unrealized loss is recognized in the consolidated income statement.

(iii) Loan Portfolio

Loans by Type of Loan

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

	At December 31,									
	2001		**2002**		**2003**		**2004**		**2005**	
	(U.S. Dollars in thousands)									
Loans	US$	2,917,267	US$	3,268,103	US$	3,284,141	US$	3,507,831	US$	3,865,643
Leasing transactions		333,840		491,666		452,635		424,902		564,575
Discounted notes		156,041		180,314		176,991		183,519		213,232
Factoring		56,616		62,302		56,446		58,116		87,757
Advances and overdrafts		45,501		169,132		45,827		48,506		49,283
Refinanced loans		268,626		330,842		296,116		243,892		175,211
Past due loans		350,835		406,135		256,208		159,057		95,769
Unearned interest		(64,247)		(90,831)		(86,868)		(66,805)		(78,495)
Total loans:	US$	4,064,479	US$	4,817,663	US$	4,481,496	US$	4,559,018	US$	4,972,975
Total past due loans amounts		(350,835)		(406,135)		(296,116)		(159,057)		(95,769)
Total performing loans	US$	3,713,644	US$	4,411,528,	US$	4,225,288	US$	4,399,961	US$	4,877,206

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 4. Information on the Company (B) Business Overview (3) Commercial Banking. Pursuant to the guidelines of the SBS, loans are categorized as follows:

Loans: 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.

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

Discounted notes: Loans 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.

Factoring: Involves the sale of title of a company s accounts receivables to a bank (or financial company). The receivables are sold without recourse and the bank cannot turn to the seller in the event accounts prove uncollectible. Factoring involves the receipt of funds by the seller from the bank prior to the average maturity date, based on the invoice amount of the receivable, less cash discounts, less an allowance for estimated claims and returns, among other items.

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.

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 20% of the principal amount of the original loan. The SBS has required refinanced loans as a separate category since 1992, and since July 1999, has distinguished a sub-group entitled *Restructured Loans*, defined as those loans extended under the bankruptcy protection procedures established in the Equity Restructuring Law.

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, net of unearned interest, based on the borrower s principal economic activity:

	At December 31,					
	2001		2002		2003	
	(U.S. Dollars in thousands, except percentages)					
Economic Activity	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**
Manufacturing	US$ 1,294,664	31.85%	US$ 1,592,191	33.05%	US$ 1,461,350	32.61%
Consumer Loans (1)	262,240	6.45	522,998	10.86	1,033,881	23.07
Commerce	572,825	14.09	617,491	12.82	560,052	12.50
Realty Businesses and Leasing Services	211,286	5.20	281,753	5.85	233,506	5.21
Mining	321,409	7.91	227,879	4.73	233,355	5.21
Communication, Storage and Transportation	194,613	4.79	209,174	4.34	189,612	4.23
Electricity, Gas and Water	159,389	3.92	302,976	6.29	211,610	4.72
Agriculture	159,420	3.92	158,500	3.29	142,697	3.18
Fishing	76,864	1.89	104,604	2.17	90,786	2.03
Financial Services	81,746	2.01	210,404	4.37	96,371	2.15
Education, Health and Other Services	56,051	1.38	93,851	1.95	99,702	2.22
Construction	124,056	3.05	86,632	1.80	70,676	1.58
Others (2)	614,163	15.11	500,041	10.38	144,766	3.23
Sub total	4,128,726	101.58	4,908,494	101.89	4,568,364	101.94
Unearned interest	(64,247)	-1.58	(90,831)	-1.89	(86,868)	-1.94
Total	US$ 4,064,479	100.00%	US$ 4,817,663	100.00%	US$ 4,481,496	100.00%

(1) Includes credit card and mortgage loans, and other consumer loans.
(2) Includes personal banking and small business loans and other sectors.

	At December 31,			
	2004		2005	
	(U.S. Dollars in thousands, except percentages)			
Economy Activity	**Amount**	**% Total**	**Amount**	**% Total**
Manufacturing	US$ 1,376,874	30.20%	US$ 1,449,600	29.15%
Consumer Loans (1)	1,187,378	26.04	1,447,469	29.11
Commerce	523,574	11.48	697,337	14.02
Realty Businesses and Leasing Services	224,745	4.93	258,010	5.19
Mining	194,022	4.26	223,447	4.49
Communication, Storage and Transportation	181,018	3.97	216,547	4.35
Electricity, Gas and Water	248,571	5.45	192,141	3.86
Agriculture	160,167	3.51	155,116	3.12
Fishing	68,604	1.50	117,247	2.36
Financial Services	90,042	1.98	105,515	2.12
Education, Health and Other Services	62,341	1.37	70,925	1.43
Construction	72,879	1.60	68,946	1.39
Others (2)	235,608	5.17	49,170	0.99
Sub total	4,625,823	101.47	5,051,470	101.58

Unearned interest		(66,805)	-1.47		(78,495)	-1.58
Total	US$	4,559,018	100.00%	US$	4,972,975	100.00%

(1) Includes credit card and mortgage loans, and other consumer loans.
(2) Includes personal banking and small business loans and other sectors.

As of December 31, 2005, 77.0% of the loan portfolio was concentrated in Lima and 91.09% was concentrated in Perú. An additional 6.97% 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, 2005 were US$1,049.0 million, of which US$886.7 million were outstanding loans representing 17.8% of the total loan portfolio. See (11) Supervision and Regulation (ii) BCP Lending Activities for the definition of economic group in accordance with SBS regulations. Total loans and other contingent credits outstanding to these customers ranged from US$102.3 million to US$29.2 million, including nine customers with over US$50.0 million. Total loans and other contingent credits outstanding to Credicorp s 20 largest customers were ranked in the following risk categories as of December 31, 2005: Class A (normal) 88.0%; Class B (potential problems) 9.36%; Class C (substandard) 0.2%; Class D (doubtful) 2.4%; 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 (11) Supervision and Regulation (ii)BCP Lending Activities. 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%, 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.

BCP s loans to Directors and employees and relatives have a global limit of 7% of capital stock and reserves and an individual limit of 5% of such global limit.

Loans to individuals not resident in Perú or companies that are not financial institutions have a limit of 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 Perú 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/.1,862.2 million (US$542.9 million) at December 31, 2005, BCP s legal lending limits vary from S/.93.1 million (US$27.1 million) to S/.744.9 million (US$217.2 million). Credicorp s consolidated lending limits, based on its regulatory capital on a consolidated basis of US$915.0 million at December 31, 2005, would range from US$45.8 million to US$366.0 million. As of December 31, 2005, BCP was in compliance with all Law 26702 lending limits.

As of December 31, 2005, Credicorp complied with the applicable legal lending limits in each of the jurisdictions where it operates. Such limit is calculated quarterly based on Credicorp s consolidated equity plus reserves for not specifically identified impaired loans 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, based on the credit quality of the borrower, the term of the loan and the amount and quality of collateral taken by Credicorp. Credicorp may, in appropriate and limited circumstances, increase or choose to exceed this limit in the future.

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

Loan Portfolio Denomination

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

	At December 31,								
	2001			2002			2003		
	(U.S. Dollars in thousands, except percentages)								
Total loan portfolio:									
Nuevo Sol-denominated	US$	579,229	14.25%	US$	677,506	14.06%	US$	723,955	16.15%
Foreign Currency-denominated		3,485,250	85.75%		4,140,157	85.94%		3,757,541	83.85%
Total loans	US$	4,064,479	100.00%	US$	4,817,663	100.00%	US$	4,481,496	100.00%

	At December 31,					
	2004			2005		
	(U.S. Dollars in thousands, except percentages)					
Total loan portfolio:						
Nuevo Sol-denominated	US$	662,058	14.52%	US$	1,032,481	20.76%
Foreign Currency-denominated		3,896,960	85.48%		3,940,494	79.24%
Total loans	US$	4,559,018	100.00%	US$	4,972,975	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, 2005, by type and by the time remaining to maturity. Loans are stated before deduction of the reserves for loan losses.

	Maturing											
	Amount at December 31, 2005		Within 3 months		After 3 months but within 12 months		After 1 year but within 3 years		After 3 years but within 5 years		After 5 years	
	(U.S. Dollars in thousands, except percentages)											
Loans	US$	3,865,643	US$	1,393,257	US$	946,381	US$	635,149	US$	264,008	US$	626,848
Leasing transactions		490,418		99,084		112,348		90,598		164,532		23,856
Discounted notes		213,232		193,217		19,396		541				78
Refinanced loans		170,873		42,769		36,558		31,142		24,582		35,822
Factoring		87,757		85,391		2,366						
Advances and overdrafts		49,283		44,609		4,674						
Total	US$	4,877,206	US$	1,858,327	US$	1,121,723	US$	757,430	US$	453,122	US$	686,604
Percentage of total performing loan portfolio		100.00%		38.10%		23.00%		15.53%		9.29%		14.08%

Interest Rate Sensitivity of the Loan Portfolio

The following table sets forth the interest rate sensitivity of the loan portfolio at December 31, 2005, by currency and by the time remaining to maturity over one year.

	Amount at December 31, 2005	Maturing After 1 year
	(U.S. Dollars in thousands)	
Variable Rate		
Nuevo Sol-denominated	2,906	318
Foreign Currency-denominated	565,320	240,132
Total	568,226	240,450
Fixed Rate (2)		
Nuevo Sol-denominated	1,029,575	158,917
Foreign Currency-denominated	3,375,174	1,497,789
Total	4,404,749	1,656,706
Total (1)	4,972,975	1,897,156

(1) Net of unearned interest

(2) Most of financial products with fixed rates can be switched to variable rates as specified on the contracts with clients.

Classification of the Loan Portfolio

Credicorp classifies BCP s loan portfolio (which includes the loan portfolio of BCB) and ASHC s loan portfolio in accordance with SBS regulations. According to SBS Resolution No. 808-2003, banks must classify all loans and other credits into one of four categories based upon the purpose of the loan; these categories are commercial, micro-business, consumer and residential mortgage. Commercial loans are generally those that finance the production and sale of goods and services, including commercial leases, as well as credit card debt on cards held by business entities. Micro-business loans, exclusively targeted for the production and sale of goods and services, are made to individuals or companies with no more than US$30,000 in total loans received from the financial system. Consumer loans are generally loans granted to individuals, including credit card transactions, overdrafts on personal demand deposit accounts, leases, and financing goods or services not related to a business activity. Residential mortgage loans are all loans to individuals for the purchase, construction, remodeling, subdivision or improvement of the individual s own home, in each case backed by a mortgage. Mortgage loans made to directors and employees of a company are also considered residential mortgage loans. 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 become due.

Regulations promulgated by the SBS also require Peruvian banks to classify all loans into one of five other categories depending upon the degree of risk of nonpayment of each loan. Credicorp reviews its loan portfolio on a continuing basis, and the SBS reviews the portfolio as it deems necessary or prudent. In classifying its loans based upon risk of nonpayment, Credicorp, in compliance with SBS guidelines, assesses the following factors: the payment history of the particular loans, the history of Credicorp s dealings with the borrower, management, operating history, repayment capability and availability of funds of the borrower, status of any collateral or guarantee, the borrower s financial statements, general risk of the sector in which the borrower operates, the borrower s risk classification made by other financial institutions, and other relevant factors. The classification of the loan determines the amount of the required loan loss provision. Law 26702 further requires banks to establish a loan loss provision of up to 1% of the bank s loan and credit portfolio classified as A (Normal) for impaired loans not specifically identified.

Under current regulations, collateral is not subtracted from the amount of the loan or credit outstanding to determine the amount of the loan or credit to be reserved against. Instead, a lower loan provision is allowed to be reserved on the portion of the loan or credit that is secured. For the purpose of determining the reservable amount, collateral is valued according to SBS regulations which require that an appraisal be determined based on expected market valuation. Only assets classified as (i) preferred , (ii) highly liquid preferred , or (iii) self-liquidating preferred are acceptable as collateral. Such collateral must, according to SBS regulations, (1) be relatively liquid, (2) have legally documented ownership, (3) have no liens outstanding and (4) have constantly updated appraisals. Examples of preferred or highly liquid preferred assets include, among others, cash deposits, real estate mortgages and pledges on securities or on other goods. Self-liquidating preferred assets include solely cash deposits in local banks or stand-by letters of credit from first-level foreign institutions.

SBS regulations require the following minimum reserves to be recorded for statutory purposes for commercial, micro-business and mortgage loans: a 1% reserve on not specifically identified loans and credits classified in the A (Normal) category, and a 5%, 25%, 60% and 100% specific reserve on loans and credits in risk categories B, C, D and E, respectively. Whenever such loans or credits, or the portions thereof, are secured with preferred collateral, required reserves for risk categories B, C, D and E are: 2.5%, 12.5%, 30% and 60%, respectively. Loans or credits, or portions thereof, secured with highly liquid preferred collateral require at least one half of the amount established in the case of the preferred collateral. Loans or credits, or the portions thereof, secured with self-liquidating preferred collateral require at least a 1% reserve. When the collateral is insufficient to secure the outstanding balances, the higher percentage requirements are applicable on the unsecured portion of the loans or credits. In the case of consumer loans, the required reserves are as follows: a 1% reserve on not specifically identified loans classified in the A (Normal) category, and a 5%, 25%, 60% and 100% specific reserve on loans in risk categories B, C, D and E, respectively.

The following table sets forth a breakdown of the loan portfolio using the categories specified by SBS Resolution No. 808-2003 as of December 31 of each of the last five years.

	At December 31,				
	2001	**2002**	**2003**	**2004**	**2005**
	(U.S. Dollars in thousands)				
Commercial loans	US$ 3,229,057	US$ 3,659,762	US$ 3,308,112	US$ 3,259,950	US$ 3,351,770
Consumer loans	229,707	205,696	251,785	283,410	356,595
Residential mortgage loans	331,673	547,005	549,220	649,930	844,892
Leasing transactions (1)	274,042	405,200	372,379	365,728	419,718
Total performing loans	US$ 4,064,479	US$ 4,817,663	US$ 4,481,496	US$ 4,559,018	US$ 4,972,975

(1) Net of unearned interest.

Credicorp does not currently track loan write-offs and recoveries of write-offs by loan categories specified by SBS Resolution N° 808-203.The five loan risk categories have the following characteristics:

Class A. Loans or credits in this category are known as normal credits. Debtors of commercial loans or credits that fall into this category have complied on a timely basis with their obligations and at the time of evaluation of the credit do not present any reason for doubt with respect to repayment of interest and principal on the loan on the agreed upon dates, and Credicorp must have no reason to believe that the status will change before the next evaluation. To place a loan or credit in Class A, a clear understanding of the use to be made of the funds and the origin of the cash flows to be used by the debtor to repay the loan or credit is required. Micro-business and consumer loans warrant Class A classification if payments are current or up to eight days past-due. Residential mortgage loans warrant Class A classification if payments are current or up to thirty days past-due. Loans or credits in this category require a reserve for not specifically identified loans of 1% of the total of such loans or credits outstanding. The required reserve may be reduced by up to 0.5% if certain conditions that ensure that the client has a low probability of default are met.

Class B. Loans or credits in this category are known as credits with potential problems. Debtors of 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 not corrected in a timely manner, imply risks with respect to the recovery of the loan. Certain common characteristics of loans or credits in the category include: delays in loan payments which are promptly covered; a general lack of information required to analyze the credit; out-of-date financial information; temporary economic or financial imbalances on the part of the debtor which could effect its ability to repay the loan; market conditions that could affect the economic sector in which the debtor is active; material overdue debts or pending judicial collection actions initiated by other financial institutions; noncompliance with originally contracted conditions; conflicts of interest within the debtor company; labor problems; unfavorable credit history; noncompliance with internal policies of the debtor company; excessive reliance on one source of raw materials or one buyer of the debtor s products; and low inventory turnover ratios or large inventories that are subject to competitive challenges or technological obsolescence. Micro-business and consumer loans are categorized as Class B if payments are between nine and 30 days late. Residential mortgage loans become Class B when payments are between 31 and 90 days late. A 5% specific reserve on total loans outstanding in this category is required. Except for consumer loans, when the loan, or a portion thereof, is secured with preferred collateral, the required reserve is 2.5%, and when secured with highly liquid preferred collateral, the required reserve is 1.25%.

Class C. Loans or credits in this category are known as substandard credits. Debtors of commercial loans or credits whose loans or credits are placed in this category demonstrate serious financial weakness, often with operating profits or available income insufficient to cover financial obligations on agreed upon terms, with no reasonable short-term prospects for a strengthening of the debtor s financial capacity. Loans or credits demonstrating the same deficiencies that warrant classification as category B credits warrant classification as Class C credits if those deficiencies are such that if they are not corrected in the near term, they could impede the recovery of principal and interest on the loan on the originally agreed terms. Additionally, commercial loans are classified in this category when payments are between 60 and 120 days late. If payments on a micro-business or consumer loan are between 31 and 60 days late, such loans are classified as Class C. Residential mortgage loans are classified as Class C when payments are between 91 and 120 days late. Commercial, micro-business and mortgage loans or credits included in this class require a specific provision of 25% of the outstanding amount (12.5% when secured with preferred collateral and 6.25 % when secured with highly liquid preferred collateral).

Class D. Loans or credits included in this category are known as doubtful credits. Debtors of 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 creditworthiness 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 that specified in its contractual obligations. Additionally, commercial loans are classified in this category when payments are between 121 and 365 days late. Micro-business and consumer loans are categorized as Class D if payments are between 61 and 120 days late. Residential mortgage loans are Class D when payments are between 121 and 365 days late. Loans or credits included in this class require a specific provision of 60% of the outstanding amount. Except for consumer loans, when the loan, or a portion thereof, is secured with preferred collateral, the required reserve is 30%, and when secured with highly liquid preferred collateral, the required reserve is 15%.

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 should not appear on Credicorp s books as an asset based on the originally contracted terms fall into this category. Additionally, commercial loans are classified in this category when payments are more than 365 days late. Micro-business and consumer loans are categorized as Class E if payments are more than 120 days late. Residential mortgage loans are moved into Class E when payments are more than 365 days late. Loans or credits included in this class require a specific provision of 100% of the outstanding amount. Except for consumer loans, when the loan is secured with preferred collateral, the required reserve is 60%, and when secured with highly liquid preferred collateral, the required reserve is 30%.

To record the allowance for loan losses, Credicorp uses IAS 39, for which all of the Class C, D and E loans, considered impaired, are analyzed taking into consideration the present value of their expected cash flows, including the recoverable amounts of the guarantees and collateral, discounted at the original effective interest rate of each loan. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less cost for obtaining and selling the collateral. The methodology and assumptions used for estimating future cash flows are reviewed regularly by Credicorp in order to reduce any differences between loss estimates and actual loss experience. The allowance for credit losses also covers estimated losses for impaired loans not specifically identified. In the case of borrowers in countries where there is an increased risk of difficulties in servicing external debt, an assessment of the political and economic situation is made, and an additional country risk provision is provided.

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

	At December 31,					
	2001		2002		2003	
	(U.S. Dollars in thousands, except percentages)					
Level of Risk Classification	**Amount**	**% Total**	**Amount**	**% Total**	**Amount**	**% Total**
A: Normal (1)	US$ 2,864,087	70.5%	US$ 3,543,152	73.5%	US$ 3,393,833	75.7%
B: Potential Problems	441,323	10.9	456,056	9.5	437,682	9.8
C: Substandard	316,945	7.8	334,423	6.9	240,316	5.4
D: Doubtful	196,501	4.8	239,101	5.0	266,723	6.0
E: Loss	245,623	6.0	244,931	5.1	142,942	3.1
Total	US$ 4,064,479	100.0%	US$ 4,817,663	100.00%	US$ 4,481,496	100.00%
C+D+E	US$ 759,069	18.6%	US$ 818,455	17.0%	US$ 649,981	14.5%

	At December 31,			
	2004		2005	
Level of Risk Classification	**Amount**	**% Total**	**Amount**	**% Total**
A: Normal (1)	US$ 3,719,973	81.6%	US$ 4,273,719	85.9%
B: Potential Problems	336,619	7.4	397,387	8.0%
C: Substandard	195,062	4.3	82,858	1.7%
D: Doubtful	184,206	4.0	146,898	3.0%
E: Loss	123,158	2.7	72,113	1.5%
Total	US$ 4,559,018	100.0%	US$ 4,972,975	100.0%
C+D+E	US$ 502,426	11.0%	US$ 301,869	6.3%

(1) Net of unearned interest

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 loan loss reserves and not for purposes of classification.

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 15 days, except for consumer mortgage and leasing loans, and loans to micro-businesses, which are considered past due after 90 days. Beginning January 1, 2001, the SBS issued accounting rules requiring Peruvian banks to consider overdrafts past due after 30 days. ASHC considers past due all overdue loans except for consumer loans, which are considered past due when the scheduled principal and/or interest payments are overdue for more than 90 days. BCB considers loans past due after 30 days.

Interest income is suspended when collection of loans becomes doubtful, such as when overdue by more than 90 days, and such income is excluded from interest income until received. Uncollected income on such loans is reversed against income. When management determines that the debtor s financial condition has improved, the recording of interest thereon is reestablished on an accrual basis. Therefore, Credicorp does not accrue interest on past due loans. Instead, interest on past due loans is recognized only when and to the extent received. Over the past five years, Credicorp has recognized interest income on these loans of US$17.5 million in 2001, US$15.0 million in 2002, US$11.0 million in 2003, US$6.2 million in 2004 and US$5.5 in 2005. With the exception of discounted notes and overdrafts, accrued but unpaid interest is reversed for past due loans. 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 five years:

	At December 31,				
	2001	2002	2003	2004	2005
	(U.S. Dollars in thousands, except percentages)				
Current	US$ 3,713,644	US$ 4,411,528	US$ 4,225,288	US$ 4,399,961	US$ 4,877,206
Past due:					
Overdue 16-119 days	54,291	82,259	50,981	11,572	3,644
Overdue 120 days or more	296,544	323,876	205,227	147,485	92,125
Subtotal	US$ 350,835	US$ 406,135	US$ 256,208	US$ 159,057	US$ 95,769
Total loans	US$ 4,064,479	US$ 4,817,663	US$ 4,481,496	US$ 4,559,018	US$ 4,972,975
Past due loan amounts as a percentage of total loans	8.63%	8.43%	5.72%	3.49%	1.93%

With respect to consumer, mortgage and leasing loans, BCP, in accordance with SBS regulations, only recognizes as past due installments for these loans that are past due for fewer than 90 days. The entire amount of these 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:

	At December 31,				
	2001	2002	2003	2004	2005
	(U.S. Dollars in thousands)				
Past due loan amounts:					
Loans	US$ 263,553	US$ 322,179	US$ 194,761	US$ 85,467	US$ 63,889
Discounted notes	9,577	4,513	1,531	776	1,124
Advances and overdrafts in demand deposits	15,332	7,892	3,400	4,157	3,412
Leasing transactions	19,686	17,231	8,716	9,387	6,412
Refinanced loans	42,687	54,320	47,800	59,270	20,932
Total past due portfolio	US$ 350,835	US$ 406,135	US$ 256,208	US$ 159,057	US$ 95,769
Less: Reserves for loan losses(1)	US$ 344,433	US$ 424,031	US$ 326,677	US$ 271,873	US$ 218,636
Total past due portfolio net of reserves	US$ 6,402	US$ (17,896)	US$ (70,469)	US$ (112,816)	US$ (122,867)

(1) Includes reserves for indirect credits (see Loan Loss Reserves).

Interest on past due loans and loans in legal collection is recognized when collected. The interest income that would have been recorded for these credits in accordance with the terms of the original contract amount is approximately US$25.8 million and US$34.8 million as of December 31, 2005 and 2004, 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,				
	2001	2002	2003	2004	2005
	(U.S. Dollars in thousands)				
Reserves for loan losses at the beginning of the year	US$ 341,487	US$ 344,433	US$ 424,031	US$ 326,677	US$ 271,873
Additional provisions (reversals)	119,422	99,596	66,421	16,131	(6,356)
Acquisitions and transfers		122,841			(9,024)
Recoveries of write-offs	14,935	12,050	17,416	32,287	35,032
Write-offs	(124,690)	(150,102)	(185,688)	(120,150)	(77,434)
Monetary correction and other	(6,721)	(4,787)	4,497	16,928	4,545
Total reserves for loan losses at the end of the year	US$ 344,433	US$ 424,031	US$ 326,677	US$ 271,873	US$ 218,636

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.

Reserves for loan losses as of December 31, 2005 include US$197.5 million of reserves for credit losses and US$21.1 million of reserves for indirect or contingent credit losses (US$253.4 million and US$18.5 million as of December 31, 2004, respectively). The reserves for indirect credit losses are included in the *Other liabilities* caption of Credicorp s consolidated balance sheet (see Notes 7(f) and 10(a) to the Credicorp Consolidated Financial Statements).

SBS regulations in effect since January 2000, facilitate the charge-off process by reducing the period required for loans to be past-due. The new regulations require a case-by-case prior approval by the Board of Directors and by the SBS.

Credicorp sells certain of its fully provisioned past due loans to a wholly-owned subsidiary for a nominal amount with the same effect as if the loans had been charged-off. 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-collectibility of the loan.

Allocation of Loan Loss Reserves

The following table sets forth the amounts of reserves for loan losses attributable to commercial, consumer and residential mortgage loans at the dates indicated:

	At December 31,									
	2001		2002		2003		2004		2005	
	(U.S. Dollars in thousands)									
Commercial loans	US$	301,267	US$	388,809	US$	283,470	US$	228,554	US$	174,929
Consumer loans		18,714		14,879		14,479		14,079		16,433
Residential mortgage loans		17,814		13,521		24,414		21,375		14,291
Leasing transactions		6,638		6,822		4,314		7,865		12,983
Total reserves	US$	344,433	US$							