

LIGHTPATH TECHNOLOGIES INC
Form 10-Q
November 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT UNDER SECTION
13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended September 30,
2011

OR

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

For the transition period from _____ to

Commission file number 000-27548

LIGHTPATH TECHNOLOGIES, INC.
(Exact name of registrant as specified in its
charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

86-0708398
(I.R.S. Employer
Identification No.)

<http://www.lightpath.com>

2603 Challenger Tech Ct. Suite 100
Orlando, Florida 32826

(Address of principal executive offices)
(ZIP Code)

(407) 382-4003

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

9,761,129 shares of common stock, Class A, \$.01 par value, outstanding as of October 31, 2011.

LIGHTPATH TECHNOLOGIES, INC.
Form 10-Q

Index

Item	Page
Part I Financial Information	
Item Financial Statements	
1.	
Consolidated Balance Sheets	3
Unaudited Consolidated Statements of Operations	4
Unaudited Consolidated Statement of Stockholders' Equity	5
Unaudited Consolidated Statements of Cash Flows	6
Notes to Unaudited Consolidated Financial Statements	7
Item Management's Discussion and Analysis of Financial	
2	
Condition and Results of Operations	21
Item Controls and Procedures	28
4.	
Part Other Information	
II	
Item Exhibits	28
6.	
Signatures	32

Item 1. Financial Statements

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Balance Sheets

	(unaudited)	
	September 30, 2011	June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$693,748	\$928,900
Trade accounts receivable, net of allowance of \$7,245 and \$7,245	2,069,979	1,833,044
Inventories, net	1,818,189	1,622,637
Other receivables	-	30,943
Prepaid interest expense	72,500	7,250
Prepaid expenses and other assets	233,634	189,630
Total current assets	4,888,050	4,612,404
Property and equipment, net	2,483,029	2,373,022
Intangible assets, net	92,916	101,133
Debt costs, net	6,380	7,180
Other assets	27,737	27,737
Total assets	\$7,498,112	\$7,121,476
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$1,332,500	\$928,790
Accrued liabilities	136,634	123,705
Accrued payroll and benefits	497,146	481,318
Total current liabilities	1,966,280	1,533,813
Deferred rent	435,605	464,262
8% convertible debentures to related parties	1,012,500	1,012,500
8% convertible debentures	75,000	75,000
Total liabilities	3,489,385	3,085,575
Stockholders' equity:		
Preferred stock: Series D, \$.01 par value, voting; 5,000,000 shares authorized; none issued and outstanding	—	—
Common stock: Class A, \$.01 par value, voting; 40,000,000 shares authorized; 9,761,129 and 9,713,099 shares issued and outstanding, respectively	97,611	97,131
Additional paid-in capital	207,795,377	207,636,440
Foreign currency translation adjustment	62,449	50,593
Accumulated deficit	(203,946,710)	(203,748,263)
Total stockholders' equity	4,008,727	4,035,901
Total liabilities and stockholders' equity	\$7,498,112	\$7,121,476

The accompanying notes are an integral part of these consolidated statements.

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Operations

(Unaudited)

	Three months ended September 30,	
	2011	2010
Product sales, net	\$2,733,125	\$2,253,922
Cost of sales	1,650,501	1,427,474
Gross margin	1,082,624	826,448
Operating expenses:		
Selling, general and administrative	995,621	1,071,198
New product development	287,719	222,585
Amortization of intangibles	8,217	8,217
Gain on sale of property and equipment	—	(540)
Total costs and expenses	1,291,557	1,301,460
Operating loss	(208,933)	(475,012)
Other income (expense):		
Interest expense	(23,420)	(87,322)
Interest expense - debt discount	—	(209,666)
Interest expense - debt costs	(800)	(83,522)
Other income (expense), net	34,706	2,572
Total other income (expense), net	10,486	(377,938)
Net loss	\$(198,447)	\$(852,950)
Loss per common share (basic and diluted)	\$(0.02)	\$(0.09)
Number of shares used in per share calculation (basic and diluted)	9,746,107	9,011,214

The accompanying notes are an integral part of these unaudited consolidated statements.

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statement of Stockholders' Equity
Three months ended September 30, 2011

(unaudited)

	Class A Common Stock		Additional Paid-in Capital	Foreign Currency Translation Adjustment	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2011	9,713,099	\$ 97,131	\$ 207,636,440	\$ 50,593	\$ (203,748,263)	\$ 4,035,901
Issuance of common stock for:						
Employee stock purchase plan	6,198	62	7,809	—	—	7,871
Interest payment on convertible debentures	41,832	418	86,582	—	—	87,000
Stock based compensation on stock options and restricted stock units	—	—	64,546	—	—	64,546
Net loss	—	—	—	—	(198,447)	(198,447)
Foreign currency translation adjustment	—	—	—	11,856	—	11,856
Comprehensive loss						(186,591)
Balance at September 30, 2011	9,761,129	\$ 97,611	\$ 207,795,377	\$ 62,449	\$ (203,946,710)	\$ 4,008,727

The accompanying notes are an integral part of these consolidated statements

LIGHTPATH TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows
(unaudited)

	Three Months ended September 30,	
	2011	2010
Cash flows from operating activities		
Net loss	\$(198,447)	\$(852,950)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	245,438	211,543
Interest from amortization of debt discount	—	209,666
Interest from amortization of debt costs	800	83,522
Gain on sale of property and equipment	—	(540)
Stock based compensation	64,546	50,387
Change in provision for doubtful accounts receivable	—	3,291
Deferred rent	(28,657)	(23,537)
Changes in operating assets and liabilities:		
Trade accounts receivables	(236,935)	36,797
Other receivables	30,943	—
Inventories	(195,552)	(83,364)
Prepaid expenses and other assets	2,746	108,261
Accounts payable and accrued liabilities	432,467	214,637
Net cash provided by (used in) operating activities	117,349	(42,287)
Cash flows from investing activities		
Purchase of property and equipment	(347,228)	(288,616)
Proceeds from sale of equipment	—	540
Net cash used in investing activities	(347,228)	(288,076)
Cash flows from financing activities		
Proceeds from exercise of stock options	—	5,653
Proceeds from sale of common stock from employee stock purchase plan	7,871	4,888
Deferred costs associated with equity financing	(25,000)	—
Costs associated with conversion of debentures	—	(6,098)
Exercise of warrants	—	231,659
Net cash provided by (used in) financing activities	(17,129)	236,102
Effect of exchange rate on cash and cash equivalents	11,856	(22,840)
Decrease in cash and cash equivalents	(235,152)	(117,101)
Cash and cash equivalents, beginning of period	928,900	1,464,351
Cash and cash equivalents, end of period	\$693,748	\$1,347,250
Supplemental disclosure of cash flow information:		
Interest paid in cash	\$-	\$80
Income taxes paid	1,755	110
Supplemental disclosure of non-cash investing & financing activities:		
Convertible debentures converted into common stock	\$-	\$732,500
Accrued deferred costs associated with equity financing	\$32,139	\$-
Prepaid interest on convertible debentures through the issuance of common stock	\$87,000	\$-

The accompanying notes are an integral part of these consolidated statements.

1. Basis of Presentation

References in this document to “the Company”, “LightPath”, “we”, “us”, or “our” are intended to mean LightPath Technologies Inc., individually, or as the context requires, collectively with its subsidiaries on a consolidated basis.

The accompanying unaudited consolidated financial statements have been prepared in accordance with the requirements of Article 8 of Regulation S-X promulgated under the Securities and Exchange Act of 1934 and, therefore, do not include all information and footnotes necessary for a fair presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements and related notes, included in its Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission (the “SEC”). Unless otherwise stated, references to particular years or quarters refer to the Company’s fiscal years ended in June and the associated quarters of those fiscal years.

These consolidated financial statements are unaudited, but include all adjustments, which include normal recurring adjustments, which, in the opinion of management, are necessary to present fairly the financial position, results of operations and cash flows of the Company for the interim periods presented. Results of operations for interim periods are not necessarily indicative of the results that may be expected for the year as a whole.

History:

LightPath was incorporated in Delaware in 1992 to pursue a strategy of supplying hardware to the telecommunications industry. In April 2000, the Company acquired Horizon Photonics, Inc. (“Horizon”), and in September 2000 the Company acquired Geltech, Inc. (“Geltech”). During fiscal 2003, in response to sales declines in the telecommunications industry, the operations of Horizon in California and LightPath in New Mexico were consolidated into the former Geltech facility in Orlando, Florida. In November 2005, the Company announced the formation of LightPath Optical Instrumentation (Shanghai) Co., Ltd. (“LPOI”), a wholly-owned manufacturing subsidiary located in Jiading, People’s Republic of China. The manufacturing operations are housed in a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant has increased overall production capacity and enabled LightPath to compete for larger production volumes of optical components and assemblies, and strengthened partnerships within the Asia/Pacific region. It also provided a launching point to drive our sales expansion in the Asia/Pacific region.

The Company is engaged in the production of precision molded aspherical lenses, GRADIUM® glass lenses, collimators and isolator optics used in various markets, including industrial, medical, defense, test & measurement and telecommunications.

Going Concern and Managements Plans

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of September 30, 2011 the Company has an accumulated deficit of approximately \$203.9 million. Cash provided by operations was \$117,000 for the three months ended September 30, 2011. Cash provided by (used in) operations was approximately \$95,000 and (\$471,000) during fiscal years ended 2011 and 2010, respectively. We continued to implement the cost reduction initiatives we started in fiscal 2010, including the transition of more precision molded lenses to less expensive glass, increasing tooling life, increasing operator yields and efficiencies, qualifying coating vendors in China and improving yields on our infrared product line. In the first three months of fiscal 2012, 41% of our precision molded lenses sales in units were of more expensive glass types, compared to 26% of the same period in the prior fiscal year. This increase was due to a decrease in sales for lower cost precision molded lenses, which was caused primarily by the slowdown of construction spending in China, and in turn, lowered the demand for our lenses.

Management is committed to continuing efforts to transition more precision molded lenses to less expensive glass, which will contribute towards achieving profitability assuming we meet our sales targets and goals for producing and selling more low-cost lenses at higher volumes.

The fiscal 2012 operating plan and related financial projections were developed anticipating sales growth primarily from precision molded optics, with the emphasis on low-cost, high-volume applications, optical assemblies including our redesigned collimator product line and infrared products. Unit volumes in these targeted markets have increased 77% from last year. We expect to hold our previous margin improvements based on production efficiencies and reductions in product costs as a result of the shifting of our manufacturing operations to the Shanghai facility and improved overhead absorption as we increase the volume of products produced, which in turn lowers our material costs since we are able to purchase materials in higher volumes. We also will continue to pursue new cost reduction opportunities such as by improving tool life and lowering anti-reflective coating costs by coating the lenses in-house.

Our revenues were lower than expected from sales of our precision molded lenses, but we met our revenue goals due to a higher average selling price per unit. Labor costs at our Shanghai facility increased due to increases in the minimum wage and higher benefit costs. Overtime expense in Orlando and Shanghai was also higher during the quarter due to unexpected tool shortages caused by machine repairs combined with a planned machine conversion. The machine repairs and conversion are completed which has reduced the need for the overtime going forward. The combination of these factors resulted in lower margins than budgeted. The shortfall in forecasted margin dollars did not allow us to cover our selling, general and administrative expenses. However, based on the current quote and booking activity on all of our product lines, and particularly the precision molded lenses, we expect increased revenue results in the second quarter of fiscal 2012 as compared to the current quarter.

The Company had a cash balance of approximately \$694,000 at September 30, 2011. To fund future operations, we may seek external debt or equity financing if it can be obtained in an amount and on terms that are acceptable; however, we may be required to seek external financing regardless of whether the terms would otherwise be acceptable if our cash flow financial resources are not sufficient to sustain our operations or to pursue our business plan. There is no assurance we will be able to achieve the necessary cash flow from sales growth and gross margin improvements to sustain operations. Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue or a lack of anticipated sales growth, increased material costs, increased labor costs, planned production efficiency improvements not being realized, increases in property, casualty, benefit and liability insurance premiums and increases in other discretionary spending, particularly sales and marketing related. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management has developed an operating plan for fiscal year 2012 and believes the Company has adequate financial resources to achieve that plan and to sustain its current operations through November 2012. Nevertheless, management will be monitoring the plan closely during the year and should the plan objectives not be met during the year, remedial actions will be initiated.

Liquidity

Cash flow and cash management continue to be primary concerns of the Company. Cash provided by (used in) operations was approximately \$95,000 and (\$471,000) during fiscal years ended 2011 and 2010, respectively. During the three months ended September 30, 2011, cash provided by operating activities was approximately \$117,000.

For the three months ended September 30, 2011, our cash balance decreased by \$235,000 compared to a decrease of \$117,000 in the same period of the prior fiscal year. This decrease in first quarter of fiscal 2012 was primarily due to capital spending to expand our tooling capabilities.

Management believes the Company currently has sufficient cash to fund its operations through November 2012 assuming revenue stays at current levels and no additional sources of capital are used. The extent to which the Company can sustain its operations beyond this date will depend on the Company's ability to generate cash from operations on increased revenues from low cost and infrared lenses or sale of non-strategic assets or from future equity or debt financing. Management believes that taking the current booking rate combined with recent quote activity and the existing order backlog the Company will be able to generate increased revenues. If we determine that future revenues are below current projections then we will attempt to implement additional cost savings measures including seeking lower cost suppliers and attempting to negotiate price reductions from current suppliers. We are continuously evaluating our supplier situation to ensure we meet our booked orders.

2. Significant Accounting Policies

Consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and cash equivalents consist of cash in the bank and temporary investments with maturities of 90 days or less when purchased.

7

Allowance for accounts receivable, is calculated by taking 100% of the total of invoices that are over 90 days past due from the due date and 10% of the total of invoices that are over 60 days past due from the due date. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers' financial condition. Recovery of bad debt amounts previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company's actual collection experience changes, revisions to its allowance may be required. After all attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventories, which consist principally of raw materials, work-in-process and finished lenses, isolators, collimators and assemblies are stated at the lower of cost or market, on a first-in, first-out basis. Inventory costs include materials, labor and manufacturing overhead. Acquisition of goods from our vendors has a 9% purchase burden added to cover customs, shipping and handling costs. Fixed costs related to excess manufacturing capacity have been expensed. We look at the following criteria for parts to consider for the inventory reserve: items that have not been sold in two years or that have not been purchased in two years or of which we have more than a two-year supply. These items as identified are reserved at 100%, as well as reserving 50% for other items deemed to be slow moving within the last twelve months and reserving 25% for items deemed to have low material usage within the last six months. The parts identified are adjusted for recent order and quote activity to determine the final inventory reserve.

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the related assets ranging from one to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the related assets using the straight-line method.

Long-lived assets, such as property, plant, and equipment, tooling and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to its estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Intangible assets, consisting of patents and trademarks, are recorded at cost. Upon issuance of the patent or trademark, the assets are amortized on the straight-line basis over the estimated useful life of the related assets ranging from two to seventeen years.

Debt costs consist of third-party fees incurred and other costs associated with the issuance of long-term debt. Debt costs are capitalized and amortized to interest expense over the term of the debt using the effective interest method.

Deferred rent relates to certain of the Company's operating leases containing predetermined fixed increases of the base rental rate during the lease term being recognized as rental expense on a straight-line basis over the lease term. The Company has recorded the difference between the amounts charged to operations and amounts payable under the leases as deferred rent in the accompanying consolidated balance sheets.

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are computed on the basis of differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based upon enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances have been established to reduce deferred tax assets to the amount expected to be realized.

The Company has not recognized a liability for uncertain tax positions. A reconciliation of the beginning and ending amount of unrecognized tax benefits or penalties has not been provided since there has been no unrecognized benefit or penalty. If there were an unrecognized tax benefit or penalty, the Company would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Company files U.S. federal income tax returns, and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal, state, local, or non-U.S. income tax examinations by tax authorities for years before 2004.

Revenue is recognized from product sales when products are shipped to the customer, provided that the Company has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized as milestones and are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer. Invoice amounts for sales or VAT taxes are posted to the balance sheet and not included in revenue.

New product development costs are expensed as incurred.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. Most options granted under our Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and generally have ten-year contract lives. The volatility rate is based on historical trends in common stock closing prices and the expected term was determined based primarily on historical experience of previously outstanding options. The interest rate used is the U.S. Treasury interest rate for constant maturities. The likelihood of meeting targets for option grants that are performance based are evaluated each quarter. If it is determined that meeting the targets is probable then the compensation expense will be amortized over the remaining vesting period.

Management makes estimates and assumptions during the preparation of the Company's consolidated financial statements that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which in turn could impact the amounts reported and disclosed herein.

Financial instruments. The Company accounts for financial instruments in accordance with FASB ASC 820, Fair Value Measurements and Disclosures ("ASC 820"), which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable.

Level 3 - Unobservable inputs that are supported by little or no market activity, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2011. The Company uses the market approach to measure fair value for its Level 1 financial assets and liabilities, which include cash equivalents of \$256,000 at September 30, 2011. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities.

The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments which include cash, trade receivables, accounts payable and accrued liabilities. Fair values were assumed to approximate carrying values for these financial instruments since they are short term in nature and their

carrying amounts approximate fair values or they are receivable or payable on demand.

On August 1, 2008, the Company executed a Securities Purchase Agreement with respect to the private placement of 8% senior convertible debentures (the “Debentures”) as described in Note 10 to the accompanying consolidated financial statements. The Debentures issued were valued using observable inputs other than quoted prices (Level 2). The fair value of the Debentures as of September 30, 2011 was calculated to be approximately \$1.1 million.

The Company does not have other financial or non-financial assets or liabilities that would be characterized as Level 2 or Level 3 instruments.

Derivative Financial Instruments. The Company accounts for derivative instruments in accordance with FASB ASC 815, Derivatives and Hedging ("ASC 815"), which requires additional disclosures about the Company's objectives and strategies for using derivative instruments, how the derivative instruments and related hedged items are accounted for, and how the derivative instruments and related hedging items affect the financial statements.

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risk. Terms of convertible debt instruments are reviewed to determine whether or not they contain embedded derivative instruments that are required under ASC 815 to be accounted for separately from the host contract, and recorded on the balance sheet at fair value. The fair value of derivative liabilities, if any, is required to be revalued at each reporting date, with corresponding changes in fair value recorded in current period operating results.

Freestanding warrants issued by the Company in connection with the issuance or sale of debt and equity instruments are considered to be derivative instruments. Pursuant to ASC 815, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as equity or as a derivative liability.

Beneficial Conversion and Warrant Valuation. The Company records a beneficial conversion feature ("BCF") related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments is recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discount recorded in connection with the BCF and warrant valuation is recognized as non-cash interest expense debt discount over the term of the convertible debt, using the effective interest method.

Comprehensive Income (Loss) of the Company is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income (loss) has two components, net income (loss) and other comprehensive income (loss), and is included on the statement of stockholders' equity. Our other comprehensive income (loss) consists of the foreign currency translation adjustments. For more information see Note 9 to the accompanying consolidated financial statements.

Business segments are required to be reported by the Company. As the Company only operates in principally one business segment, no additional reporting is required.

Recent accounting pronouncements issued by the Financial Accounting Standard Board ("FASB") (including the Emerging Issues Task Force ("EITF")), the American Institute of Certified Public Accountants ("AICPA") and the SEC are:

The Accounting Standards Update ("ASU") 2011-05, Presentation of Comprehensive Income, eliminates the option of presenting the components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity. The ASU instead permits an entity to present the total of comprehensive income, the components of net income, and the components of OCI either in a single continuous statement of comprehensive income or in two separate but consecutive statements. With either format, the entity is required to present each component of net income along with total net income, each component of OCI along with the total for OCI, and a total amount for comprehensive income. Also, the ASU requires entities to present, for either format, reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. This ASU is to be applied retrospectively. For public entities, the ASU is effective for interim and annual periods beginning after December 15, 2011. The ASU is effective for the Company for its

interim period beginning January 1, 2012. The Company does not believe this pronouncement will have a material impact on the Company's present or future financial statements.

3. Inventories

The components of inventories include the following:

	(unaudited) September 30, 2011		June 30, 2011
Raw materials	\$ 742,875		\$ 806,024
Work in process	807,435		604,788
Finished goods	342,047		318,076
Reserve for obsolescence	(74,168)		(106,251)
	\$ 1,818,189		\$ 1,622,637

4. Property and Equipment

Property and equipment are summarized as follows:

	Estimated Life (Years)	(unaudited) September 30, 2011	June 30, 2011
Manufacturing equipment	5 - 10	\$3,241,864	\$3,226,898
Computer equipment and software	3 - 5	271,170	257,451
Furniture and fixtures	5	86,166	86,299
Leasehold improvements	5 - 7	792,793	787,685
Construction in progress		407,959	227,654
Tooling	1 - 5	1,289,946	1,135,738
Total property and equipment		6,089,898	5,721,725
Less accumulated depreciation and amortization		3,606,869	3,348,703
Total property and equipment, net		\$2,483,029	\$2,373,022

5. Intangible Assets

The following table discloses information regarding the carrying amounts and associated accumulated amortization for intangible assets:

	(unaudited) September 30, 2011		June 30, 2011
Gross carrying amount	\$ 621,302		\$ 621,302
Accumulated amortization	(528,386)		(520,169)
Net carrying amount	\$ 92,916		\$ 101,133

Amortization expense related to intangible assets totaled approximately \$8,000 during both three-month periods ended September 30, 2011 and 2010. The net carrying amount will be amortized over the following schedule for the remainder of fiscal 2012 and each fiscal year thereafter:

2012	2013	2014	2015	Total
24,651	32,868	32,868	2,529	92,916

6. Accounts Payable

The accounts payable balance includes \$43,000 of related party transactions for board of directors' fees as of September 30, 2011 and June 30, 2011.

7. Compensatory Equity Incentive Plan and Other Equity Incentives

Share-Based Compensation Arrangements—The Company's Amended and Restated Omnibus Incentive Plan (the "Plan") included several available forms of stock compensation of which incentive stock options and restricted stock awards have been granted to date.

These two plans are summarized below:

	Award Shares Authorized	Award Shares Outstanding at September 30, 2011	Available for Issuance at September 30, 2011
Equity Compensation Arrangement			
Amended and Restated Omnibus Incentive Plan	1,715,625	934,933	335,299
Employee Stock Purchase Plan	200,000	-	126,995
	1,915,625	934,933	462,294

The 2004 Employee Stock Purchase Plan ("ESPP") permits employees to purchase shares of Class A common stock through payroll deductions, which may not exceed 15% of an employee's compensation, at a price not less than 85% of the market value of the stock on specified dates (June 30 and December 31). In no event may any participant purchase more than \$25,000 worth of shares of Class A common stock in any calendar year and an employee may purchase no more than 4,000 shares on any purchase date within an offering period of 12 months and 2,000 shares on any purchase date within an offering period of six months. The discount on market value is included in selling, general and administrative expense in the accompanying statements of operations and was \$806 and \$486 for the three months ended September 30, 2011 and 2010, respectively.

Grant Date Fair Values and Underlying Assumptions; Contractual Terms—The Company estimates the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. The ESPP fair value is the amount of the discounted market value the employee obtains at the date of the purchase transaction.

The Company did not grant any stock options in the first quarter of fiscal 2012. For stock options granted in the three month period ended September 30, 2010, the Company estimated the fair value of each stock option as of the date of grant using the following assumptions:

	Quarter Ended September 30, 2010
Expected volatility	134%
Weighted average expected volatility	134%
Dividend yields	0%
Risk-free interest rate	2.15%
Expected term, in years	7

Most options granted under the Plan vest ratably over two to four years and are generally exercisable for ten years. The assumed forfeiture rates used in calculating the fair value of options and restricted stock unit grants with both performance and service conditions were 20% and 0%, respectively, for the three months ended September 30, 2011 and 42% and 0%, respectively, for the three months ended September 30, 2010. The volatility rate and expected term are based on seven-year historical trends in Class A common stock closing prices and actual forfeitures. The interest rate used is the U.S. Treasury interest rate for constant maturities.

Information Regarding Current Share-Based Compensation Awards—A summary of the activity for share-based compensation awards in the three months ended September 30, 2011 is presented below:

		Stock Options	Weighted Average Exercise Price (per share)	Weighted Average Remaining Contract Life (YRS)	Restricted Stock Units	Weighted Average Remaining Contract Life (YRS)
	Shares				Shares	
June 30, 2011	500,233	\$3.01	6.9	434,700	0.9	
September 30, 2011	500,233	\$3.01	6.6	434,700	0.8	
Awards exercisable/ vested as of						
September 30, 2011	323,483	\$3.19	5.7	234,700	-	
Awards unexercisable/ unvested as of						
September 30, 2011	176,750	\$2.69	8.3	200,000	0.8	
	500,233			434,700		

The total intrinsic value of options outstanding and exercisable at September 30, 2011 and 2010 was \$21,000 and \$140,000, respectively.

The total intrinsic value of RSUs exercised during the three months ended September 30, 2011 and 2010 was \$0 and \$0, respectively.

The total intrinsic value of RSUs outstanding and exercisable at September 30, 2011 and 2010 was \$338,000 and \$74,000, respectively.

The total fair value of RSUs vested during the three months ended September 30, 2011 and 2010 was \$0 and \$0, respectively.

The total fair value of option shares vested during the three months ended September 30, 2011 and 2010 was \$18,000, and \$3,000, respectively.

As of September 30, 2011, there was \$341,436 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share options and restricted stock units) granted under the Plan.

The compensation cost is expected to be recognized as follows:

	Stock Options	Restricted Stock Units	Total
Nine months ended June 30, 2012	\$34,892	\$68,126	\$103,018
Year ended June 30, 2013	63,324	96,284	159,608
Year ended June 30, 2014	48,522	22,434	70,956
Year ended June 30, 2015	7,854	-	7,854
	\$154,592	\$186,844	\$341,436

The table above does not include shares under the Company's ESPP, which has purchase settlement dates in the second and fourth fiscal quarters of each year. The Company's ESPP is not administered with a look-back option provision and, as a result, there is not a population of outstanding option grants during the employee contribution period.

Restricted stock unit awards vest immediately or from two to four years from the date of grant.

The Company issues new shares of Class A common stock upon the exercise of stock options. The following table is a summary of the number and weighted average grant date fair values regarding the Company's unexercisable/unvested awards as of September 30, 2011 and changes during the three months then ended:

Unexercisable/unvested awards	Stock Options Shares	RSU Shares	Total Shares	Weighted-Average Grant Date Fair Values (per share)
June 30, 2011	182,500	200,000	382,500	\$ 2.53
Granted	-	-	-	-
Vested	(5,750)	-	(5,750)	3.12
Cancelled/Issued/Forfeited	-	-	-	-
September 30, 2011	176,750	200,000	376,750	\$ 2.53

Financial Statement Effects and Presentation—The following table shows total stock-based compensation expense for the three months ended September 30, 2011 and 2010 included in the consolidated statements of operations:

	Quarter Ended September 30, 2011	Quarter Ended September 30, 2010
Stock options	\$22,575	\$25,196
RSU	41,971	25,191
Total	\$64,546	\$50,387
The amounts above were included in:		
General & administrative	\$59,841	\$44,479
Cost of sales	2,125	2,578
New product development	2,580	3,330
	\$64,546	\$50,387

8. Loss Per Share

Basic loss per share is computed by dividing the weighted-average number of shares of Class A common stock outstanding, during each period presented. Diluted earnings per share is computed similarly to basic earnings per share except that it reflects the potential dilution that could occur if dilutive securities or other obligations to issue shares of Class A common stock were exercised or converted into shares of Class A common stock. The computation for basic and diluted loss per share are the same as the diluted calculation excludes the following shares as their effect would be anti-dilutive:

	(unaudited) Three months ended September 30, 2011 2010	
Net loss	\$(198,447)	\$(852,950)
Weighted average common shares outstanding:		
Basic and diluted	9,746,107	9,011,214
Loss per Class A common share:		
Basic and diluted	\$(0.02)	\$(0.09)
Excluded from computation:		
Options to purchase Class A common stock	500,233	452,090
Restricted stock units	434,700	359,700
Class A common stock warrants	2,364,492	2,656,492
Convertible debentures	706,169	780,357
	4,005,594	4,248,639

9. Foreign Operations

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the three-month periods. Gains or losses on the translation of the financial statements of a non-U.S. operation, where the functional currency is other than the U.S. dollar, the Renminbi, are reflected as a separate component of equity. The foreign exchange translation adjustment reflects net losses of approximately \$12,000 for the three months ended September 30, 2011, and gains of \$23,000 for the three months ended September 30, 2010. The Company, as of September 30, 2011, had approximately \$4.4 million in assets and \$3.5 million in net assets located at the Shanghai facility. The Company transferred equipment from the Orlando facility to the Shanghai facility, and purchased and transferred equipment to the Shanghai facility, during each fiscal year since 2006 through 2011.

10. Convertible Debentures

On August 1, 2008, we executed a Securities Purchase Agreement with twenty-four institutional and private investors with respect to the private placement of 8% senior convertible debentures (the “Debentures”). The Debentures are secured by substantially all of our previously unencumbered assets pursuant to a Security Agreement and are guaranteed by our wholly-owned subsidiaries, Geltech and LPOI pursuant to a Subsidiary Guarantee. The sale of the Debentures generated gross proceeds of approximately \$2.9 million and net proceeds of \$2.7 million. We used the funds to provide working capital for our operations. Among the investors were Steven Brueck, J. James Gaynor, Louis Leeburg, Robert Ripp, Gary Silverman and James Magos, all of whom were directors or officers of LightPath as of August 1, 2008. Mr. Magos resigned effective September 2, 2008.

The original maturity date of the Debentures was August 1, 2011, on which date the outstanding principal amount of the Debentures would have been due. Interest of \$39,053 was due on October 1, 2008 and was prepaid by the Company on August 1, 2008 by issuing 27,893 shares of Class A common stock in payment of such interest based upon the closing price of \$1.40 per share (the “October Interest Shares”). The interest accruing on the Debentures from October 1, 2008 to August 1, 2011 was prepaid by issuing Class A common stock in December 2008.

Upon issuance, the Debentures were immediately convertible into 1,901,948 shares of Class A common stock, based on a conversion price of \$1.54 per share, which was 110% of the closing bid price of our common stock on the NASDAQ Capital Market on July 31, 2008. Investors also received warrants to purchase up to 950,974 shares of our common stock (the “Warrants”). The Warrants are exercisable for a period of five years beginning on August 1, 2008 with 65% of the Warrants, exercisable for 618,133 shares, priced at \$1.68 per share and the remaining 35% of the Warrants, exercisable for 332,841 shares, priced at \$1.89 per share.

Investors who participated in our July 2007 offering were offered an incentive to invest in the debenture offering. Four investors from the July 2007 offering participated in the debenture offering and as a result we reduced the exercise price of the warrants they received in the July 2007 offering from \$5.50 per share to \$2.61 per share. The reduced exercise price lowered potential proceeds on the exercise of the warrants from the July 2007 offering by \$119,212 to \$107,663. Additionally, such investors were issued an aggregate of 73,228 shares of common stock (the “Incentive Shares”), valued at \$75,131.

We paid a commission to the exclusive placement agent for the offering, First Montauk Securities Corp. (“First Montauk”), in an amount equal to \$216,570 plus costs and expenses. We also issued to First Montauk and its designees warrants to purchase an aggregate of 190,195 shares of our Class A common stock at an exercise price equal to \$1.68 per share, which was 120% of the closing bid price of our common stock on the NASDAQ Capital Market on July 31, 2008. The warrants were valued at \$194,057 using the Black-Scholes-Merton pricing model and were recorded as debt costs. The warrants are exercisable for a period of five years beginning on August 1, 2008. In

addition, the exercise price of 50% of the warrants previously issued to First Montauk and its designees at the closing of the July 2007 offering was reduced from \$5.50 to \$2.61 per share. This reduced warrant exercise price lowered potential proceeds on the exercise of the warrants issued to First Montauk from the July 2007 offering by \$115,600 to \$104,400.

The private placement was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Act"), pursuant to Section 4(2) of the Act (in that we sold the Debentures, Warrants and shares of Class A common stock in a transaction not involving any public offering) and pursuant to Rule 506 of Regulation D promulgated thereunder. The shares into which the Debentures are convertible, the shares issuable upon exercise of the Warrants, the October Interest Shares and the Incentive Shares have been registered for resale under the Act. The registration was declared effective on October 16, 2008.

The Warrants and the Incentive Shares issued to the debenture holders were valued at issuance at \$790,830 and recorded as a discount on the debt. The Incentive Shares were valued using the fair market value of the Company's Class A common stock on the date of issuance. The Warrants were valued using the Black-Scholes-Merton valuation model using assumptions similar to those used to value the Company's stock options and RSUs. In addition, a beneficial conversion feature associated with the Debentures was valued at the date of issuance at \$600,635 and was recorded as a discount on the debt. The total debt discount of \$1,391,465 was amortized using the effective interest method over the original 36-month term of the Debentures and was subsequently adjusted for the extension of the maturity date of the Debentures as discussed below.

We also incurred debt issuance costs associated with the issuance of the Debentures of \$554,308 which were amortized over the original 36-month term using the effective interest method, adjusted for accelerated conversions of the Debentures and the extension of the maturity date of the Debentures as discussed below. The costs were for broker commissions, legal and accounting fees, filing fees and \$194,057 representing the fair value of the 190,195 warrants shares issued to First Montauk. We used the Black-Scholes-Merton model to determine fair value of the warrants issued to First Montauk. The warrants carry a five year term, expiring on August 1, 2013, and are immediately exercisable at a per share price of \$1.68 for one-third of the warrants and \$1.89 for two-thirds of the warrants. For the years ended June 30, 2011 and 2010, \$118,977 and \$147,550, respectively of the debt issuance costs were amortized through interest expense on the consolidated statement of operations.

On December 31, 2008, the Debentures were amended to allow debenture holders to convert 25% of their Debentures into shares of Class A common stock. As a result, \$732,250 of the Debentures were converted into 475,496 shares of Class A common stock. As an inducement to partially convert the Debentures, we issued additional warrants (valued at \$215,975 using the Black-Scholes-Merton method and recorded as interest expense) and prepaid the interest of \$453,995 on the unconverted portion of the Debentures through the original maturity date of August 1, 2011, which resulted in the issuance of 589,614 shares of Class A common stock. The interest payment of \$58,580 for the quarter ended December 31, 2008 resulted in the issuance of 76,078 shares of Class A common stock. As a result of the Debenture conversion, \$304,382 of debt discount was written off to interest expense. On May 29, 2009 we filed a registration statement to register the additional interest shares and the shares underlying the warrants, both of which were issued in December 2008. The registration statement was declared effective on June 16, 2009.

During the year ended June 30, 2011, the Company's debt obligations were reduced by \$832,500 through the conversions of certain of the Debentures into shares of Class A common stock. Costs associated with the conversion of these Debentures were \$6,749, which reduced the proceeds recognized. These transactions increased interest expense by \$101,300 for the year ending June 30, 2011, reflecting debt issue costs, prepaid interest and discount on the debt that were written off as a result of the debt conversions of certain of the Debentures into shares of Class A common stock. During the fiscal year ended June 30, 2010, the Company's debt obligations were reduced by \$262,500 through conversion of certain of the Debentures into shares of Class A common stock.

On March 30, 2011, debenture holders holding approximately 98.71% of the outstanding principal amount of the Debentures consented to an amendment to extend the maturity date of the Debentures from August 1, 2011 to August 1, 2013. The one debenture holder electing not to participate in the extension was paid all amounts due under the Debenture held by such holder, or \$14,250, in April 2011. Pursuant to the terms of the amendment, interest will be prepaid in shares of Class A common stock annually each August. The extension of the maturity date of the Debentures was determined to be substantial and therefore triggered "debt extinguishment" accounting under ASC 470-50-40. The Debentures are hybrid financial instruments that blend characteristics of both debt and equity securities. The Debentures embody settlement alternatives to the holder providing for either redemption of principal and interest in cash (forward component) or conversion into shares of Class A common stock (embedded conversion feature). As a result of the debt extinguishment accounting, \$63,692 of the unamortized debt discount and \$25,372 of unamortized debt issuance costs were written off to loss on extinguishment of debt. The calculated fair value of the

amended Debentures as of March 30, 2011 was \$1,706,919, and included \$924,844 for the forward component and \$782,075 for the embedded conversion feature. The forward component was valued using the present value of discounted cash flows arising from the contractual principal and interest payment terms and the embedded conversion feature was valued using a Monte Carlo simulations method. The fair value of the amended Debentures exceeded the carrying value of the Debentures just prior to the amendment date by \$619,419 which represents a premium. Approximately 93% of the Debentures are held by related parties and as such \$576,700 of the premium was considered a capital contribution and was not included in the loss on extinguishment and therefore had no impact on additional paid in capital. The remaining \$42,719 of the premium was associated with Debentures to non-related parties and thus was recorded to loss on extinguishment of debt and additional paid in capital.

For the quarter ended September 30, 2011 and 2010, \$0 and \$209,666, respectively, of the amortized debt discount was amortized through interest expense on the consolidated statement of operations. The unamortized debt discount was \$0 and \$170,719 as of September 30, 2011 and 2010, respectively.

Total principal outstanding on the Debentures and the principal amount outstanding specifically to directors, officers and stockholders under the Debentures was \$1,087,500 and \$1,012,500, respectively at September 30, 2011 and \$1,201,750 and \$1,016,250, respectively, at September 30, 2010.

We can force the debenture holders to convert the Debentures into shares of our Class A common stock if our stock price exceeds \$5.00 per share. A forced conversion of the Debentures would include a 10% premium on the face amount. No payment of dividends may be made while the Debentures are outstanding.

11. Future Financing Plans

On September 29, 2011, the Company filed a Registration Statement on Form S-1 (Registration No, 333-177079) with the SEC announcing its intention to raise funds through the sale of our Class A common stock in a fully-underwritten public offering. The Company intends to sell up to 4.5 million units, with each unit consisting of one share of our Class A common stock, one Warrant A to purchase 0.25 shares of our Class A common stock, and one Warrant B to purchase 0.25 shares of our Class A common stock.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of the LightPath Technologies, Inc. ("LightPath", the "Company" or "we"). All statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the "Quarterly Report"), other than statements of historical facts, which address activities, events or developments that we expect or anticipate will or may occur in the future, including such things as future capital expenditures, growth, product development, sales, business strategy and other similar matters are forward-looking statements. These forward-looking statements are based largely on our current expectations and assumptions and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from the forward-looking statements set forth herein as a result of a number of factors, including, but not limited to, limited cash resources and the need for additional financing, our dependence on a few key customers, our ability to transition our business into new markets, our ability to increase sales and manage and control costs and other risks described in our reports on file with the Securities and Exchange Commission ("SEC"). In light of these risks and uncertainties, all of the forward-looking statements made herein are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by us will be realized. We undertake no obligation to update or revise any of the forward-looking statements contained herein.

The discussions of our results as presented in this Quarterly Report include use of the terms "EBITDA" and "gross margin." EBITDA is discussed below. Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes manufacturing direct and indirect labor, materials, services, fixed costs for rent, utilities and depreciation, and variable overhead. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with GAAP. We believe that gross margin, although a non-GAAP financial measure is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates our cost structure and provides funds for our total costs and expenses. We use gross margin in measuring the performance of our business and have historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Overview

Historical: We are in the business of supplying users with glass lenses and other specialty optical products that have applications in a number of different industries. Due to the emergence of optical technologies in communications, networking and data storage products in the late 1990's, there was a significant surge in demand for our products, particularly in the period represented by our fiscal years 1999-2001. During this period, our annual revenues increased from less than \$2 million in sales to approximately \$25 million due to both acquisitions (to add glass lens production capacity and market presence, and isolators to our existing line of collimators and proprietary glass lenses) and organic product line growth.

From 1998 through 2002, we were heavily reliant on the telecommunications capital equipment market, which went through a rapid increase and a subsequent rapid decrease during this period. During fiscal 2003 following the contraction of this market, we consolidated our corporate headquarters and all production, including production for GRADIUM glass lenses and collimators previously performed in New Mexico and production of isolators previously performed in California, in Orlando, Florida to reduce costs and adapt to the market changes.

In November 2005, we formed LightPath Optical Instrumentation (Shanghai) Co., Ltd, ("LPOI"), a wholly-owned manufacturing subsidiary, located in Jiading, People's Republic of China. The manufacturing operations are housed in

a 16,000 square foot facility located in the Jiading Industrial Zone near Shanghai. This plant has increased overall production capacity and enabled us to compete for larger production volumes of optical components and assemblies, and strengthened our partnerships within the Asia/Pacific region.

In 2006, the Company began a program to reduce its operating costs, including restructuring its manufacturing operations. By 2008, the major elements of this program were implemented resulting in a significant reduction of costs. The elements of the program were: 1) move the majority of our manufacturing to our Shanghai facility, 2) convert our tooling to a less expensive ceramic system and 3) introduce lower cost glass materials. In exploiting our new cost structure, we have focused on leveraging our facility in Shanghai to address high volume, lower cost applications. These applications include laser tools, laser gun sights and certain imaging applications. We have established relationships with some of the larger OEM customers in these areas. We have expanded our sales channels by adding distribution coverage in North America and Asia, and adding a master distributor in Europe. Finally, we are designing lenses specifically for our existing and new target markets. Our new designs and new marketing approach have brought additional requests for product information from new customers. We believe we are well positioned to take advantage of new opportunities in these areas.

We execute all foreign sales from our Orlando facility and intercompany transactions in U.S. dollars, mitigating the impact of foreign currency fluctuations. Assets and liabilities denominated in non-U.S. currencies, primarily the Chinese Renminbi, are translated at rates of exchange prevailing on the balance sheet date, and revenues and expenses are translated at average rates of exchange for the three-month period. During the three months ended September 30, 2011 and 2010, we incurred an \$11,856 gain and a \$22,840 loss in on foreign currency translation, respectively.

How we operate: We have continuing sales of two basic types: occasional sales via ad-hoc purchase orders of mostly standard product configurations (our “turns” business); and the more challenging and potentially more rewarding business of custom product development. In this latter type of business, we work with customers in the industrial, medical, defense and communications markets to help them determine optical specifications and even create certain optical designs for them, including complex multi-component designs that we call “engineered assemblies.” That is followed by “sampling” small numbers of the product for their test and evaluation. Thereafter, should the customer conclude that our specification or design is the best solution to their product need, we negotiate and “win” a contract (sometimes called a “design win”) – whether of a “blanket purchase order” type or a supply agreement. The strategy is to create an annuity revenue stream that makes the best use of our production capacity as compared to the turns business, which is unpredictable and uneven. A key business objective is to convert as much of our business to the design win and annuity model as possible. We have several challenges in doing so:

Maintaining an optical design and new product sampling capability, including a high-quality and responsive optical design engineering staff.

Customers that incorporate products such as ours into higher volume commercial applications, continuously work to reduce their expenses, which often leads them to larger or overseas lower-cost suppliers even if sacrificing quality.

Because of our limited cash resources and cash flow, we may not be able to support the supply requirements needed to service the demands in the market for high-volume, low-cost lenses.

Despite these challenges to obtaining more design win business, we nevertheless have been, and believe we can continue to be, successful in procuring this business because of our unique capabilities in optical design engineering. Additionally, we believe that we offer value to some customers as a secondary or backup source of supply in the United States should they be unwilling to commit all of their source of supply of a critical component to a foreign merchant production source. We also continue to have the proprietary GRADIUM lens glass technology to offer to certain laser markets.

Our key indicators:

Usually on a weekly basis, management reviews a number of performance indicators. Some of these indicators are qualitative and others are quantitative. These indicators change from time to time as the opportunities and challenges in the business change. They are mostly non-financial indicators such as units of shippable output by major product line, production yield rates by major product line and the output and yield data from significant intermediary manufacturing processes that support the production of the finished shippable product. These indicators can be used to calculate such other related indicators as fully yielded unit production per-shift, which varies by the particular product and our state of automation in production of that product at any given time. Higher unit production per shift means lower unit cost and therefore improved margins or improved ability to compete where desirable for price sensitive customer applications. The data from these reports is used to determine tactical operating actions and changes. We believe that our non-financial production indicators, such as those noted, are proprietary information.

Financial indicators that are usually reviewed at the same time include the major elements of the micro-level business cycle:

sales backlog;
EBITDA;
inventory levels; and
accounts receivable levels and quality.

These indicators are similarly used to determine tactical operating actions and changes and are discussed in more detail below.

Sales Backlog – We believe that sales growth is our best indicator of success. Our best view into the efficacy of our sales efforts is in our “order book.” Our order book equates to sales “backlog.” It has a quantitative and a qualitative aspect: quantitatively, our backlog’s prospective dollar value and qualitatively, what percent of the backlog is scheduled by the customer for date-certain delivery. We define our “12-month backlog” as customer orders for delivery within one year which is reasonably likely to be fulfilled, including customer purchase orders and products to be provided under supply contracts if they meet the aforementioned criteria. At June 30, 2011, our 12-month backlog was approximately \$3.87 million.

At September 30, 2011, our 12-month backlog has increased approximately \$330,000 to \$4.20 million during these slow economic times. We believe this growth to be partially the result of our efforts to enter low-cost, high-volume commercial markets, like the industrial laser tool market and other imaging related product markets. We have seen increased quote activity for our Black Diamond product line and our new blue lenses. Bookings and quote activity have increased for our industrial low-cost lenses in Asia. With the continuing diversification of our 12-month backlog we expect to show modest increases in revenue for the remaining quarters of 2012.

	(Unaudited)	
	Three months ended	
	September 30,	
	2011	2010
Net Loss	\$(198,447)	\$(852,950)
Depreciation and amortization	245,438	211,543
Interest expense	24,220	380,510
EBITDA	\$71,211	\$(260,897)

EBITDA- EBITDA is a non-GAAP financial measure used by management, lenders and certain investors as a supplemental measure in the evaluation of some aspects of a corporation's financial position and core operating performance. Investors sometimes use EBITDA as it allows for some level of comparability of profitability trends between those businesses differing as to capital structure and capital intensity by removing the impacts of depreciation, amortization and interest expense. EBITDA also does not include changes in major working capital items such as receivables, inventory and payables, which can also indicate a significant need for, or source of, cash. Since decisions regarding capital investment and financing and changes in working capital components can have a significant impact on cash flow, EBITDA is not a good indicator of a business's cash flows. We use EBITDA for evaluating the relative underlying performance of the Company's core operations and for planning purposes. We calculate EBITDA by adjusting net loss to exclude net interest expense, income tax expense or benefit, depreciation and amortization, thus the term "Earnings Before Interest, Taxes, Depreciation and Amortization" and the acronym "EBITDA."

Our EBITDA for the three months ended September 30, 2011 increased to a gain of approximately \$71,000, compared to a loss of approximately \$261,000 for the three months ended September 30, 2010. The increase in EBITDA was principally caused by lower net losses and lower interest expense. For comparison purposes, net loss was approximately \$198,000 or \$0.02 per basic and diluted common share during the first three months of fiscal 2012, compared with the first three months of fiscal 2011, in which we reported a net loss of approximately \$853,000 or \$0.09 basic and diluted per common share.

Inventory Levels – We manage our inventory levels to minimize investment in working capital but still have the flexibility to meet customer demand to a reasonable degree. While the mix of inventory is an important factor, including adequate safety stocks of long lead-time materials, an important aggregate measure of inventory in all phases of production is the quarter’s ending inventory expressed as a number of days worth of the quarter’s cost of sales, also known as “days cost of sales in inventory,” or “DCSI.” It is calculated by dividing the quarter’s ending inventory by the quarter’s cost of goods sold, multiplied by 365 and divided by 4. Generally, a lower DCSI measure equates to a lesser investment in inventory and therefore more efficient use of capital. During the three months ended September 30, 2011 and 2010, our DCSI was 100 and 78, respectively, compared to 91 for the year ended June 30, 2011. This increase in DCSI for the three months ended September 30, 2011 is due to higher inventory balances as our plants were producing units based on our sales forecast. Although our sales did not reach our forecasted levels, we anticipate DCSI to improve in the near term as a result of our increased 12-month backlog.

Accounts Receivable Levels and Quality – Similarly, we manage our accounts receivable to minimize investment in working capital. We measure the quality of receivables by the proportions of the total that are at various increments past due from our normally extended terms, which are generally 30 days. The most important aggregate measure of accounts receivable is the quarter’s ending balance of net accounts receivable expressed as a number of day’s worth of the quarter’s net revenues, also known as “days sales outstanding,” or “DSO.” It is calculated by dividing the quarter’s ending net accounts receivable by the quarter’s net revenues, multiplied by 365 and divided by 4. Generally, a lower DSO measure equates to a lesser investment in accounts receivable, and therefore, more efficient use of capital. During the three months ended September 30, 2011 and 2010, our DSO was 69 and 71, respectively. During the quarter ended June 30, 2011 our DSO was 60. Our DSO is higher than our target DSO of 50 due to 51% of the quarterly revenue earned was from products shipped in September, and therefore, the majority of our total current receivables have not been collected as of September 30, 2011.

Other Key Indicators – Other key indicators include various operating metrics, some of which are qualitative and others are quantitative. These indicators change from time to time as the opportunities and challenges in the business change. They are mostly non-financial indicators such as on time delivery trends, units of shippable output by major product line, production yield rates by major product line and the output and yield data from significant intermediary manufacturing processes that support the production of the finished shippable product. These indicators can be used to calculate such other related indicators as fully-yielded unit production per-shift, which varies by the particular product and our state of automation in production of that product at any given time. Higher unit production per shift means lower unit cost and therefore improved margins or improved ability to compete where desirable for price sensitive customer applications. The data from these reports is used to determine tactical operating actions and changes.

Liquidity and Capital Resources

As shown in the accompanying financial statements, the Company has incurred recurring losses from operations and as of September 30, 2011, the Company has an accumulated deficit of approximately \$203.9 million. Cash flow and cash management continue to be primary concerns of the Company. Cash provided by operations was approximately \$117,000 for the quarter ended September 30, 2011. Cash provided by (used in) operations was \$95,000 for fiscal year 2011 and (\$471,000) during fiscal year 2010. During fiscal 2010, management continued to pursue cost reduction initiatives which included reductions in labor, material costs and discretionary expense spending. In fiscal 2011, we redesigned certain product lines – collimators and precision molded lenses, increased sales prices on GRADIUM products, obtained more favorable material costs by sourcing some purchased components in China, and instituted more efficient management techniques which improved our product yields.

At September 30, 2011, we had a book cash balance of approximately \$694,000. For the three months ended September 30, 2011, cash decreased from June 30, 2011 by approximately \$235,000, and cash decreased by approximately \$349,000 for the same period last year excluding the proceeds we received from the exercise of

common stock warrants. The use of cash in both periods was primarily for capital expenditures for equipment and tooling to support our growth initiatives. On October 31, 2011, the Company had a book cash balance of approximately \$592,000.

Through the first three months of fiscal 2012 we continued to engage in efforts to keep costs under control as we seek renewed sales growth. During the first quarter of fiscal 2012, we experienced rising labor and benefit expenses at our Shanghai facility. We continued to implement cost reduction initiatives, including increasing tooling life and increasing operator yields and efficiencies, lowering coating costs by qualifying coating vendors in China, improving yields on our infrared product line, reducing glass cost by moving more production to less expensive cost glasses and improving production yields and efficiencies. In the first three months of fiscal 2012, 41% of our precision molded lenses sales in units were of more expensive glass types, compared to 26% in the prior fiscal year due to the sale of fewer low cost industrial tool lenses.

We also expect sales increases and margin improvements during the rest of fiscal year 2012. The increased sales will allow us to spread our overhead cost over a larger base thereby increasing gross margins. We have targeted specific applications in each of these areas: laser tools, gun sights, biomedical instruments and telecommunication subsystems for the glass aspheres market; laser line generators, industrial tools, optical cutting/welding, scientific lasers, semiconductors, metrology systems and telecommunication subsystems for the specialty optics market; and thermal imaging, security cameras, thermography, gas sensing and defense targeting and tracking for the infrared optics market. In support of these efforts, the Company is engaged in new product development and customer prospecting for these markets. We believe that cash flow from operations will improve in the future based upon anticipated increases in sales and further cost reductions. We believe these factors will contribute toward achieving profitability assuming we meet our sales targets.

If our efforts at reaching positive cash flow and profitability are not successful, we will need to raise additional capital. Should capital not be available to us at reasonable terms, other actions may become necessary in addition to cost control measures and continued efforts to increase sales. These actions may include exploring strategic options for the sale of the Company, the sale of certain product lines, the creation of joint ventures or strategic alliances under which we will pursue business opportunities, the creation of licensing arrangements with respect to our technology, or other alternatives.

Economic conditions affecting some of the markets we serve had an effect on our quarterly revenue. In particular, such conditions have affected the telecommunications market and caused our telecommunications customers to delay new orders. Also, the Chinese government has continued its tight monetary policy in an effort to slow expansion of the economy and reduce inflation. As a result, construction in China has slowed which negatively impacted our industrial tool market in China. These occurrences resulted in a reduction of anticipated quarterly revenue from our telecommunications and industrial tools customers. By taking advantage of our diversified markets and customer base, we were able to offset this revenue loss with increases in revenues from our defense and industrial customers, particularly with our collimator and custom optics lines. Management believes the Company currently has sufficient cash to fund its operations through November 2012 assuming our revenue stays at current levels and no additional sources of capital are used. The extent to which the Company can sustain operations beyond this date will depend on the Company's ability to generate cash from operations on increased revenues from low cost and infrared lenses, or sale of non-strategic assets or from future equity or debt financing.

Recent quarterly booking trends have risen over the last fiscal year. Management believes that taking the current booking rates combined with the existing order backlog the Company will be able to generate increased revenues. If we determine that future revenues are below current projections then we will attempt to implement additional cost saving measures including seeking lower cost suppliers and attempting to negotiate price reductions from current suppliers. We are continually evaluating our supplier situation to ensure we meet our booked orders. This also includes seeking new suppliers and looking for price reductions.

Factors which could adversely affect cash balances in future quarters include, but are not limited to, a decline in revenue, poor cash collections from our accounts receivables, increased material costs, increased labor costs, planned

production efficiency improvements not being realized, the current recession and economic times and increases in other discretionary spending, particularly sales and marketing costs.

Sources and Uses of Cash

Operating Activities

Our sources of operating cash consist of our limited cash reserves and the cash generated from the collection of receivables after invoicing customers for product shipments. Our uses of operating cash primarily consist of payments to vendors for materials and services purchased, payments to employees for wages and compensation, payments to providers of employee benefits, rent and utilities. Our plan is to minimize our investment in inventory but still support our sales and forecasted anticipated growth. We manage our accounts payable very carefully. We have taken certain actions to conserve our cash including extending payment terms with certain of our suppliers. We have negotiated payment plans with some key vendors and sometimes work with other vendors to develop payment plans.

Investing Activities

Periodically we make expenditures for capital goods. In the first quarter of fiscal 2012, we had capital expenditures for tooling, computer servers and equipment to support our tooling operations. In the first quarter of fiscal 2011, we added press capacity and tooling for precision molded lenses. Tooling costs for precision molded lenses are capitalized. Recent capital spending projects have been focused on expanding capacity at our Shanghai facility to meet forecasted demand.

Financing Activities

We do not currently have any availability for borrowing under equipment leases or other loan facilities and we do not currently have any commitment from any party to provide any other financing to the Company. Since 2001, we have experienced negative cash flow or net use of cash from operations. This net use of cash has recently been met by drawing down on our cash and cash equivalent balances and raising additional funds through the sale of shares of common stock or debt convertible into shares of our common stock, such as our private placement offerings over the last five fiscal years. Our cash forecast also includes the repayment of \$1,087,500 due in August 2013 on our convertible debentures, assuming the debenture holders have not previously converted the debt to common stock.

There can be no assurances that such financing will be available to us, or, if available, that the terms of such financing will be acceptable to us. As a result, there is significant risk to us in terms of having limited cash resources with which to continue our operations as currently conducted or to pursue new business opportunities. Either of these outcomes would materially and adversely affect our results of operations, financial performance and stock price.

On September 29, 2011, the Company filed a Registration Statement on Form S-1 (Registration No. 333-177079) with the SEC announcing its intention to raise funds through the sale of our Class A common stock in a fully-underwritten public offering. The Company intends to sell up to 4.5 million units, with each unit consisting of one share of our Class A common stock, one Warrant A to purchase 0.25 shares of our Class A common stock, and one Warrant B to purchase 0.25 shares of our Class A common stock.

Off Balance Sheet Arrangements

We do not engage in any activities involving variable interest entities or off-balance sheet arrangements.

Results of Operations

Fiscal First Quarter: Three months ended September 30, 2011 compared to the three months ended September 30, 2010

Revenues:

For the quarter ended September 30, 2011, we reported total revenues of \$2.73 million compared to \$2.25 million for the first quarter of last fiscal year, an increase of 21%. The increase from the first quarter of the prior fiscal year was primarily attributable to higher sales volumes in precision molded optics, which accounted for 77% of our revenues. Our precision molded optics sales units were higher and our average selling price was higher due to the product mix change in the quarter's sales. Growth in sales going forward is expected to be derived primarily from the precision molded optics product line, particularly our low-cost lenses being sold in Asia, infrared lenses and collimators.

Cost of Sales:

Our gross margin percentage in the first quarter of fiscal 2012 compared to first quarter of fiscal 2011 increased to 40% from 37%. Total manufacturing cost of \$1.65 million was approximately \$220,000 higher in the first quarter of fiscal 2012 compared to the same period of the prior fiscal year. This was due to higher sales volumes and higher labor costs due to higher volumes. Unit shipment volume in precision molded optics was up 80% in the first quarter of fiscal 2012 compared to the same period last year. In the first three months of fiscal 2012, 41% of our precision molded optics sales in units were of more expensive glass types, compared to 26% in the same period last year. Direct costs, which include material, labor and services, increased to 29% of revenue in the first quarter of fiscal 2012, as compared to 27% of revenue in the first quarter of fiscal 2011, primarily due to product mix changes including increased sales of infrared lenses and collimators which have a higher material cost also contributed to the increase in direct costs

The most significant factor creating potential downward pressure on our gross margins is the level of revenue from the sales of precision molded optics, collimator and infrared products. Lower revenues generated from sales of these products may affect our ability to cover certain fixed costs related to such products. As our revenues increase we expect improvements in gross margins as our overhead costs are amortized over a higher base.

Selling, General and Administrative:

During the first quarter of fiscal 2012, selling, general and administrative (“SG&A”) costs were approximately \$1.00 million, compared to \$1.07 million in the first quarter of fiscal 2011, a decrease of approximately \$76,000. This decrease was due to lower investor relations expenses. We intend to maintain SG&A costs generally at current levels, with some increases expected for sales and marketing.

New Product Development:

New product development costs were approximately \$288,000 in the first quarter of fiscal 2012 compared to \$223,000 in the same period last year, a 29% increase. This increase was primarily due to increases in wages and materials purchased for current projects with respect to our infrared lenses and new lens designs. We anticipate these expenses to increase for the remainder of fiscal year 2012 as we invest in the continued development of our infrared product line.

Amortization of Intangibles:

Amortization expense from intangibles remained the same at approximately \$8,000 per quarter in both the fiscal quarters ended September 30, 2011 and 2010.

Other Income (Expense):

Interest expense was approximately \$24,000 in the first quarter of fiscal 2012 as compared to \$380,000 in the first quarter of fiscal 2011. This higher interest expense last year resulted from the accelerated conversion by certain investors of their debentures into common stock in the first quarter of 2011 which reduced the Company’s debt obligation by \$732,500. As the interest and debt issuance cost was amortized over the full life of the debenture, with the accelerated conversion approximately \$200,000 of cost associated with the amount converted was expensed during the first quarter of 2011. The debentures issued in August 1, 2008 accounted for approximately all of the interest, which accrues at 8% per annum, during the quarter ended September 30, 2011. Future interest expense on the debentures is expected to be approximately \$24,000 per quarter. Investment and other income was approximately \$35,000 in the first quarter of fiscal 2012 and \$2,600 in the first quarter of fiscal 2011.

Net Loss:

Net loss was approximately \$198,000 or \$0.02 basic and diluted per share during the first quarter of fiscal 2012, compared with the first quarter of fiscal 2011, in which we reported a net loss of approximately \$853,000 or \$0.09 basic and diluted per share. The \$655,000 decrease in net loss resulted from the improvement of gross margin in the current period and the \$380,000 charge for interest and debt issuance costs associated with the accelerated conversion of a portion of the debentures into common stock during the prior period. Weighted-average shares outstanding (basic) increased to 9,746,107 in the first quarter of fiscal 2012 compared to 9,011,214 in the first quarter in fiscal 2011, primarily due to the issuance of shares for the conversion of debentures and warrant exercises in the fiscal 2011.

Critical Accounting Policies and Estimates:

Allowance for accounts receivable is calculated by taking 100% of the total of invoices that are over 90 days past due from due date and 10% of the total of invoices that are over 60 days past due from due date. Accounts receivable are customer obligations due under normal trade terms. The Company performs continuing credit evaluations of its customers’ financial condition. Recovery of bad debt amounts which were previously written off is recorded as a reduction of bad debt expense in the period the payment is collected. If the Company’s actual collection experience

changes, revisions to its allowance may be required. After attempts to collect a receivable have failed, the receivable is written off against the allowance.

Inventory obsolescence reserve is calculated by reserving 100% for items that have not been sold in two years or that have not been purchased in two years and 25% for products which we have more than a two year supply, as well as reserving 50% for other items deemed to be slow moving within the last 12 months and reserving 25% for items deemed to have low material usage within the last six months.

Revenue is recognized from product sales when products are shipped to the customer, provided that the Company has received a valid purchase order, the price is fixed, title has transferred, collection of the associated receivable is reasonably assured, and there are no remaining significant obligations. Revenues from product development agreements are recognized as milestones are completed in accordance with the terms of the agreements and upon shipment of products, reports or designs to the customer.

Stock based compensation is measured at grant date, based on the fair value of the award, and is recognized as an expense over the employee's requisite service period. We estimate the fair value of each stock option as of the date of grant using the Black-Scholes-Merton pricing model. Most options granted under our Amended and Restated Omnibus Incentive Plan vest ratably over two to four years and generally have ten-year contract lives. The volatility rate is based on four-year historical trends in common stock closing prices and the expected term was determined based primarily on historical experience of previously outstanding options. The interest rate used is the U.S. Treasury interest rate for constant maturities. The likelihood of meeting targets for option grants that are performance based are evaluated each quarter. If it is determined that meeting the targets is probable then the compensation expense will be amortized over the remaining vesting period.

Beneficial Conversion and Warrant Valuation. The Company recorded a beneficial conversion feature ("BCF") related to the issuance of convertible debt instruments that have conversion features at fixed rates that are in-the-money when issued, and the fair value of warrants issued in connection with those instruments. The BCF for the convertible instruments was recognized and measured by allocating a portion of the proceeds to warrants, based on their relative fair value using the Black-Scholes-Merton pricing model, and as a reduction to the carrying amount of the convertible instrument equal to the intrinsic value of the conversion feature. The discounts recorded in connection with the BCF and warrant valuation were recognized as non-cash interest expense over the term of the convertible debt, using the effective interest method.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of September 30, 2011, the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2011 in reporting on a timely basis information required to be disclosed by us in the reports we file or submit under the Exchange Act.

During the fiscal quarter ended September 30, 2011, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits

The following exhibits are filed herewith as a part of this report.

Exhibit Number	Description	Notes
3.1.1	Certificate of Incorporation of Registrant, filed June 15, 1992 with the Secretary of State of Delaware	1
3.1.2	Certificate of Amendment to Certificate of Incorporation of Registrant, filed October 2, 1995 with the Secretary of State of Delaware	1
3.1.3	Certificate of Designations of Class A common stock and Class E-1 common stock, Class E-2 common stock, and Class E-3 common stock of Registrant, filed November 9, 1995 with the Secretary of State of Delaware	1
3.1.4	Certificate of Designation of Series A Preferred Stock of Registrant, filed July 9, 1997 with the Secretary of State of Delaware	2
3.1.5	Certificate of Designation of Series B Stock of Registrant, filed October 2, 1997 with the Secretary of State of Delaware	3
3.1.6	Certificate of Amendment of Certificate of Incorporation of Registrant, filed November 12, 1997 with the Secretary of State of Delaware	3
3.1.7	Certificate of Designation of Series C Preferred Stock of Registrant, filed February 6, 1998 with the Secretary of State of Delaware	4
3.1.8	Certificate of Designation, Preferences and Rights of Series D Participating Preferred Stock of Registrant filed April 29, 1998 with the Secretary of State of Delaware	5
3.1.9	Certificate of Designation of Series F Preferred Stock of Registrant, filed November 2, 1999 with the Secretary of State of Delaware	6
3.1.10	Certificate of Amendment of Certificate of Incorporation of Registrant, filed February 28, 2003 with the Secretary of State of Delaware	7
3.2	Bylaws of Registrant	1
4.1	Rights Agreement dated May 1, 1998, between Registrant and Continental Stock Transfer & Trust Company	5
4.2	First Amendment to Rights Agreement dated as of February 28, 2008, between LightPath Technologies, Inc. and Continental Stock Transfer & Trust Company	12
10.1		8

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Directors Compensation Agreement dated November 11, 1999 between Robert Ripp and LightPath Technologies, Inc. and First Amendment thereto

10.2	Amended and Restated Omnibus Incentive Plan dated October 15, 2002	9
10.3	Employee Letter Agreement dated June 12, 2008, between LightPath Technologies, Inc., and J. James Gaynor, its Chief Executive Officer & President	10
10.4	Form of Common Stock Purchase Warrant dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors	11
10.5	Securities Purchase Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors	11
10.6	Registration Rights Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc., and certain investors	11
10.7	Security Agreement dated as of August 1, 2008, by and among LightPath Technologies, Inc. and certain investors	11
10.8	Form of Subsidiary Guarantee dated as of August 1, 2008, by Geltech Inc., and LightPath Optical Instrumentation (Shanghai), Ltd., in favor of certain investors	11
10.9	Form of 8% Senior Secured Convertible Debenture dated as of August 1, 2008, issued by LightPath Technologies, Inc., to certain investors	11
10.10	First Amendment to the 8% Senior Secured Convertible Debenture, dated as of December 31, 2008	13
10.11	Amendment No. 2 to the Amended and Restated LightPath Technologies, Inc. Omnibus Incentive Plan, dated as of December 30, 2008	14
10.12	Form of Common Stock Purchase Warrant dated as of August 19, 2009, issued by LightPath Technologies, Inc., to certain investors	15
10.13	Securities Purchase Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc. and certain investors	15
10.14	Registration Rights Agreement dated as of August 19, 2009, by and among LightPath Technologies, Inc., and certain investors	15
10.15	Form of Common Stock Purchase Warrant dated as of April 8, 2010, issued by LightPath Technologies, Inc. to certain investors	16
10.16	Securities Purchase Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc. and certain investors	16
10.17	Registration Rights Agreement dated as of April 8, 2010, by and among LightPath Technologies, Inc., and certain investors	16
10.18		17

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Second Amendment to the 8% Senior Secured Convertible Debenture, dated as of March 30, 2011

10.19	2004 Employee Stock Purchase Plan dated December 6, 2004	18
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 of Chapter 63 of Title 18 of the United States Code	*
101.INS	XBRL Instance Document	
101.SCH	XBRL Taxonomy Extension Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	

Notes:

1. This exhibit was filed as an exhibit to our Registration Statement on Form SB-2 (File No: 33-80119) filed with the Securities and Exchange Commission on December 7, 1995 and is incorporated herein by reference thereto.
2. This exhibit was filed as an exhibit to our annual report on Form 10-KSB40 filed with the Securities and Exchange Commission on September 11, 1997 and is incorporated herein by reference thereto.
3. This exhibit was filed as an exhibit to our quarterly report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 1997 and is incorporated herein by reference thereto.
4. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No. 333-47905) filed with the Securities and Exchange Commission on March 13, 1998 and is incorporated herein by reference thereto.
5. This exhibit was filed as an exhibit to our Registration Statement on Form 8-A filed with the Securities and Exchange Commission on April 28, 1998 and is incorporated herein by reference thereto.
6. This exhibit was filed as an exhibit to our Registration Statement on Form S-3 (File No: 333-94303) filed with the Securities and Exchange Commission on January 10, 2000 and is incorporated herein by reference thereto.
7. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on January 24, 2003 and is incorporated herein by reference thereto.
8. This exhibit was filed as an exhibit to our annual report on Form 10-KSB filed with the Securities and Exchange Commission on August 31, 2000 and is incorporated herein by reference thereto.
9. This exhibit was filed as an exhibit to our Proxy Statement filed with the Securities and Exchange Commission on September 12, 2002 and is incorporated herein by reference.
10. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on June 12, 2008, and is incorporated herein by reference thereto.
11. This exhibit was filed as an exhibit to our Current Report on Form 8-K/A filed with the Securities and Exchange Commission on August 6, 2008, and is incorporated herein by reference thereto.
12. This exhibit was filed as amendment number 1 to form 8A filed with the Securities and Exchange Commission on February 28, 2008, and is incorporated herein by reference thereto.
13. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on January 6, 2009, and is incorporated herein by reference thereto.
14. This exhibit was filed as an exhibit to our Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 12, 2009, and is incorporated herein by reference thereto.
15. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2009, and is incorporated herein by reference thereto.

16. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 9, 2010, and is incorporated herein by reference thereto.

17. This exhibit was filed as an exhibit to our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 1, 2011, and is incorporated herein by reference thereto.

18. This exhibit was filed as an exhibit to our Registration Statement on Form S-8 (File No: 333-121385) filed with the Securities and Exchange Commission on December 17, 2004 and is incorporated herein by reference thereto.

* Filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LIGHTPATH
TECHNOLOGIES, INC.

Date: November 3, 2011

By: /s/ J. James Gaynor
President and Chief
Executive Officer

Date: November 3, 2011

By: /s/ Dorothy M. Cipolla
Chief Financial Officer

29

= "DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: Times New Roman" > *Generating Value*

In terms of generating value, the Bank continues to develop strategies to approach different customer groups. The increasing usage of CRM (Customer Relation Management) tools across all sectors enables the Bank to reach customers and provide them with personalized offers and terms in a timely manner. In an effort to build long-term relationships, the Bank has boosted its development and training activities, including training programs with small-business owners supported by Universidad del Pacífico, the fair organization ExpoNegocios, Bodegas y Mercados, and intensive seminars conducted in 10 cities across the country. Another key element for creating value is innovation, and BCP has launched several innovative products, including new products in the services provided to very wealthy customers; new benefits to customers whose wages are paid at their BCP accounts; and the development of the Línea Múltiple de Negocios [Multiple Business Line] that allows our business banking service customers to meet their financial needs with a comprehensive, easy-to-use product.

Quality in Service

Quality in service is a permanent goal for BCP. In this field, progress has been made as part of implementing a new regulation promulgated under the Consumer Protection Law, including significant investments geared at improving service and keeping customers informed about the products and services we offer. We have also implemented longer working hours in branches.

Improved processes and supporting tools have enabled us to follow up and leverage growing businesses. The new commercial loan disbursement process (promissory notes, loans, advances and issuing bank guarantees nationwide) was successfully implemented by using CAPS as a tool. This allowed us to improve our customer service timing and to reduce our business consultants' and assistants' workload. In 2006, we received fewer general complaints, which dropped by 22% from 2005.

The efforts to improve our service quality have been communicated in successful advertising campaigns on TV which have won us awards such as the Gran Effie 2006, the highest award granted in Peru for advertising effectiveness and

the Communication Award in Financial Marketing granted by the Latin American Banking Federation.

41

(ix) Anti Money Laundering Policies

Since 1995, BCP has implemented programs and adopted policies designed to comply with the “know your customer” regulations in the countries in which it operates. As an additional precaution, ASHC will open accounts only for individuals or entities that are recommended by senior officers of ASHC or BCP.

Peru 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 Area, 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 Area 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.

(x) Employees

As of December 31, 2006, BCP had 8,859 full-time employees, compared to 7,479 employees as of December 31, 2005 and 7,694 employees as of December 31, 2004. 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 in FEB has 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, 2006, 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, 2006, ASHC had total assets of US\$1,379.1 million and shareholders’ equity of US\$178.9 million (compared with US\$1,114.6 million and US\$164.8 million, respectively, as of December 31, 2005). ASHC’s net income was US\$31.5 million in 2006 and US\$25.2 million in 2005, which included income from dividends paid by Credicorp. Larger revenues from dividends are a consequence of strong Credicorp dividend payments in 2006, resulting from improved earnings in the prior year. Though not reflected in the consolidated results, ASHC’s net income attributable to Credicorp increased compared to the US\$13.5 million registered during the 2005, reaching a total of US\$15.4 million.

Total loans outstanding in ASHC’s portfolio were US\$160.4 million and US\$133.8 million at December 31, 2005, and 2006, respectively, representing a decrease of 16.6%. Deposits increased 25.2% to US\$1,166.1 at December 31, 2006 from US\$931.7 million at December 31, 2005. Third-party assets under management increased 37.3% from US\$1,017.0 million in 2005 to US\$1,396.2 million in 2006, principally due to the increase in value of customers stock portfolios. 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, 2005 and 2006.

ASHC's Corporate Banking Group makes working capital and bridge loans. As of December 31, 2006, approximately 50.9% of ASHC's loans were to Peruvian companies, 3.8% were to companies in Bolivia, 6.9% were to companies in Colombia, 3.9% 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 Group. ASHC has concentrated its extensions of credit on short-term trade transactions with Latin American countries other than Peru.

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 of 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 Group'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, 2006, ASHC had approximately 3,200 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, 2006, ASHC had approximately US\$737.8 million, at fair values, invested in these types of securities (US\$520.5 million in 2005). ASHC generally utilizes its own funds for these activities rather than borrowings. ASHC also holds an equity investment in Credicorp with a fair value of approximately US\$598.6 million at December 31, 2006 (US\$333.2 million at December 31, 2005). 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 composed 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\$1,396.2 million as of December 31, 2006, compared to US\$1,017.0 million as of December 31, 2005. This increase was principally due to the increase in value of customers' stock portfolios. 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 and through its subsidiaries El Pacífico Vida and Pacífico Salud, which together comprise Pacífico Grupo Asegurador, which provides a broad range of insurance products in the property and casualty, life and health groups. In 2006, the six most significant lines together constituted 79.6% 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 30.3% based on net premiums earned and fees in 2006.

PPS's consolidated net income attributable to Credicorp in 2006 was US\$14.5 million, an increase of 159% from US\$5.6 million in 2005. Total premiums increased 3.8% to US\$372.6 million during 2006 from US\$359.0 million in 2005, and net premiums earned, net of reinsured premiums and of technical reserves (as defined below in “—(ii) Claims and Reserves”), were US\$259.1 million in 2006, increasing 16.4% as compared to the previous year. PPS's net underwriting results increased 77.6% to US\$34.8 million in 2006 from US\$19.6 million in 2005, mainly due to higher gross premiums, lower claims and lower ceded rates. The ratio of underwriting results to total net premiums increased from 5.4% during 2005 to 9.3% in 2006, also mainly as a result of lower premiums ceded and lower reserves adjustments. The property and casualty businesses, which presented the best underwriting result among the various business Areas compared to the same period of 2005, were mainly marine hull, personal injuries and third-party liabilities. Meanwhile, operating expenses during 2006 represented 24.3% of net premiums earned, lower than 21.7% in 2005.

In the case of the specialization by Areas, such as fire, automobiles, health and fraud, among others, a specialized team has been formed. This team is responsible for improving the technical results through a study of the risk portfolio by area, applying best practices in selection, operations and marketing, and for creating new products aligned with our economic and social reality.

PPS's business is highly concentrated, with a client base of over 20,000 companies and over 240,000 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 130,000 individuals. As of December 2006, revenues from policies written for PPS's three largest and 20 largest customers represented 5.2% and 19.9% of total premiums in P&C and Health insurance, respectively, PPS's property insurance lines are sold through agents and brokers, while life insurance is sold by its own sales force. The 10 largest brokers accounted for approximately 35.7% of total premiums as of December 31, 2006 (36.4% as of December 31, 2005).

El Pacífico Vida (“Pacífico Vida”), PPS life insurance subsidiary since 1997, is 38%-owned by ALICO, a subsidiary of AIG. In 2006, Pacífico Vida had total premiums of US\$117.2 million, a 6.1% increase from total premiums of US\$110.5 million in 2005. Pacífico Vida's net income reached US\$9.4 million in 2006, close to the US\$9.9 million reached in 2005. Pacífico Vida's market share was 23.0% in 2006 versus 23.7% in 2005. Individual life and personal injuries businesses increased 22.0%, mainly due to improved productivity and growth of their sales force, reaching a market share of 31.8%. Life annuity business decreased 16% in total earnings and showed a reduction in market share from 21% to 17.7%, mainly due to a more conservative investment policy, which decelerated the demand for this product. The pension fund underwriting business grew 26% with respect to the same period in 2005. Likewise, Group Life, Legal Life, SCTR and Credit Life increased thanks to the business with BCP such as credit cards and mortgage loans. In 2006, total premiums on Group Life, Legal Life and SCTR increased by 18.9% with Credit Life being the most dynamic product, reaching an increase of 30% over that of 2005. Pacífico Vida, the life insurance company, generated financial earnings amounting to US\$35.1 million in 2006.

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\$80.7 million in 2006 (US\$78.5 million in 2005), with a net income of US\$3.7 million in 2006 (compared to loss of US\$1.9 million in 2005) mainly due to higher production and lower claims registered.

In 2006, PPS has improved its internal reporting and risk management processes to produce reliable financial statements and control risk, in line with international reporting standards and in compliance with the regulatory requirements applicable to Credicorp Ltd., PPS's parent company, which is listed on the NYSE. Thus, in 2006 PPS has become one of the few local companies to achieve such reporting and control standards.

(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 2006 were, among others, Lloyd's, New Hampshire Insurance Co., Münchener Ruck, Swiss Reinsurance Co., Hannover Ruck, XL Re Ltd., Liberty Mutual, London Life, Mapfre Re and QBE Reinsurance. Premiums ceded to reinsurers represented 21.0%, 18.9% and 17.0% of premiums written in 2004, 2005 and 2006, 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, 2006, premiums for reinsurance written by PPS totaled US\$6.1 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 “—(ii) Claims and Reserves.”

(ii) Claims and Reserves

Net claims paid as a percent of net premiums written (*i.e.*, the net loss ratio) reached 60.3% in 2006, as in 2005, and lower than 52.3% in 2004. The net loss ratio from the health and medical assistance insurance line, which represented 29.8% of total premiums in 2006, (30.5% in 2005) decreased from 82.9% in 2005 to 82.2% in 2006. Automobile risks, 6.4% of PPS's premiums in 2006 (4.9% in 2005), decreased from 63.1% in 2005 to 57.1% in 2005. The property casualty line, 13.3% of total premiums in 2006 (15.6% in 2005), increased from 24% in 2005 to 35.0% in 2006. The net loss ratio from private pension fund insurance, 8.0% of total premiums in 2006 (6.5% in 2005), decreased from 89.5% in 2005 to 86.3% in 2006.

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 incurred but not reported (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, 2006, the book value of PPS's available for sale investments was US\$728.9 million, which included US\$43.2 million in equity securities and US\$685.7 million in bonds. In addition, real state investments book value reached US\$31.8 million.

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."

As part of its improvement process, PPS changed its investments policy to employ the best international risk management practices and tools, and incorporated the recommendations of Solvencia II and Basel II with a view to developing a better match of terms and currencies with the company's liabilities, especially in connection with obligations vis-à-vis PPS's insured customers. The profits earned during 2006 may be attributed primarily to (i) the sale of a significant share package of Banco de Crédito as part of the effort to improve PPS's currencies matching between assets and liabilities which generated gains of approximately US\$40 million, for PPS (a related party transaction eliminated in the consolidation process), (ii) the interest rates growth in the last year, and (iii) the increase in the stock market value of shares in which PPS invested. Certain profitable transactions are not reflected in Credicorp's results, since, as related-party transactions, they are eliminated in the consolidation process.

As a consequence of these sales, additional investments were made, mainly in fixed income securities. Considering that PPS invested in some specific securities, there is no assurance that PPS will be able to dispose of large portions of its investment portfolio for market value. Consequently, there is a risk related to low liquidity in the event PPS is required to obtain cash in order to cover important liabilities.

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 2006, 61.6% of the gross premiums received by PPS were denominated in U.S. Dollars (63.9% in 2005). As of December 31, 2006, PPS had US\$61.8 million in fixed income bonds compared to US\$81 million as of December 31, 2005. In addition, U.S. Dollar deposits in banks and U.S. Dollar current accounts were US\$28.5 million and US\$24.5 million at the end of 2005 and 2006, respectively.

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 Peru, 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

Prima AFP was established in 2005.

In 2006, Prima AFP achieved major commercial and operating performance, reflected in 115,000 new customers from transfers and 23,000 more customers from affiliations, maintaining the highest levels of active contributors (estimated in approximately 90% compared with 38% for the industry) and average wages.

Commercial success replicated itself also in the field of investments, in which the company fulfilled its profitability promises.

Continuing to pursue its strategy of fast growth and positioning in the market, on August 24, 2006 Prima AFP reached an agreement with Grupo Santander Perú S.A. for the acquisition of 99.97% of Unión Vida AFP. The acquisition was consummated for a total of US\$141 million and the final purchase price determination was made with the conclusion of the arbitration proceedings between the parties. As a result, Credicorp received a reimbursement in an approximate amount of US\$4.5 million. See Notes 2(a) to Credicorp Consolidated Financial Statement. Of the US\$141 million, US\$112 million came from a capital increase and US\$29 million came from a BCP loan. Later, the company engaged in a tender offer directed at the minority shareholders. The company has successfully managed the operational and commercial challenges associated with the merger period. Unión Vida managed to resist competitive pressure, reaching 36,974 gross transfers and 8,907 affiliations between September and November 2006.

The merger, which was completed on December 1, 2006, resulted in a company with greater human and technological capabilities and a consolidated market position benefiting from intrinsic synergies of the pension administration business. The merged company has the following characteristics:

(1) Combined capacity and experience of the staff of both companies, totaling, at the time of the merger, 275 administrative employees, 126 service and maintenance employees, 113 commercial supervision employees and 2,081 sales force employees.

(2) 997 thousand affiliates, comprising 25.7% of the system, with US\$4.2 billion under management comprising 29.2% of the funds in the system (ranking second in the market), as of December 2005.

(3) More than 17,000 pensioners enjoying a broad national presence with a total of 11 points of service and 19 points of sale.

At the close of 2006, the company posted losses of US\$20.72 million and income of US\$23.42 million. This was the case because the company continued to expand its income base progressively while it was still in a growth stage and faced high commercial expenses. Similarly, beginning in September 2006, it absorbed Unión Vida's income and expenses, including important merger charges. Merger expenses included Unión Vida system accelerated depreciation due to its short useful life (until December 2006), staff lay-off costs and the amortization of the Unión Vida trademark, which use was discontinued since December 2006.

In balance sheet terms, the capital increase of US\$112 million stands out; this, coupled with indebtedness amounting to US\$29 million extended by BCP, enabled the company to acquire 99.97% of AFP Unión Vida shares, which was manifested in an increase in assets, liabilities and equity. Additionally, the Prima AFP purchased the property now converted into the corporate headquarters. This implied borrowing US\$11.3 million in the form of a loan from BCP. Due to additional operating debt requirements, the year-end debt figure stood at US\$55.4 million. Management believes that, given expected future flows and the support of its shareholders, this level of indebtedness does not put Prima AFP's operation at risk. As for the investment in Unión Vida, after discounting Unión Vida adjusted equity, US\$98.0 million intangible assets were recorded, to be amortized over the next years. After discounts of US\$32.8 million for deferred taxes and interest, US\$49.0 million was recorded as goodwill. From the amount recorded as intangible assets, US\$3.7 million corresponding to the "Unión Vida" brands were written off as of December 1, 2006, as the Group will no longer use or sell them.

The merged company's operating expenses cannot yet be used as an indicator of future company expenses given the short period of time since the merger was effected. Nevertheless, as of December 31, 2006, there appears a downtrend in the merged company's operating expenses.

(8) Competition

(i)

Banking

The Peruvian banking sector is currently composed of 11 commercial banking institutions. As of December 31, 2006, BCP (excluding foreign branches) ranked first among all Peruvian banks in terms of assets, deposits and loans with a market share of 36.1% of assets, 36.2% of deposits and 30.5% of loans.

Major Peruvian Banks as of December 31, 2006	Assets	Deposits	Loans
BCP	36.1%	36.2%	30.5%
Banco Continental	23.6%	24.5%	27.2%
Scotiabank Perú	16.8%	16.7%	16.3%
Interbank	9.4%	9.8%	9.3%
Citibank	3.7%	2.9%	4.2%

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. In 2006, Banco Wiese merged with Banco Sudamericano and created Scotiabank Perú. During the same year, HSBC launched operations in Peru and is currently focused on top corporate segments.

Credicorp believes that the Peruvian banking industry will continue to be a 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 Group, BCP's Corporate Banking Area 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\$14.3 billion as of December 31, 2006, increasing 51.7% since December 31, 2005, with a return of 26.82% in real terms in 2006. Total mutual funds reached US\$2.6 billion in 2006, a 29.2% increase from US\$2.0 billion in 2005.

(iii)

Other Financial Institutions

Other institutions in the Peruvian financial system tend to specialize in a given market sectors. 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\$838.2 million as of December 31, 2006, or 50.1% of the total in the financial system, and consumer loans, where such providers lent US\$820.9 million, or 21.5% 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 Peru. Although ASHC is based outside of Peru, a substantial number of its customers are also located in Peru. Accordingly, the results of operations and financial condition of Credicorp could be affected by changes in economic or other policies of the Peruvian government (which has exercised and continues to exercise a substantial influence over many aspects of the private sector) or other political or economic developments in Peru, including a devaluation of the 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 Peru.

(i)

Peruvian Government

During the past several decades, Peru 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, Peru 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.

Over the course of his government, President Fujimori implemented a broad-based reform of Peru's political system, economy and social conditions, aimed at stabilizing the economy, reducing bureaucracy, eradicating corruption and bribery in the judicial system, promoting private investment, developing and strengthening free markets, strengthening education, health, housing and infrastructure and suppressing terrorism. In 2000, President Fujimori won a third five-year term in a controversial two round election. 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.

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 Peru, 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.

Peru has experienced continuous economic growth since the second half of 2001. President Toledo 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 transferred 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.

President

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

(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, 6.6% in 2005 and 8.0% in 2006; this growth for eight years in a row had not been seen since 1977. The "El Niño" phenomenon (a shift in ocean temperatures and atmospheric conditions in the tropical Pacific that disrupts the weather) was still considered a threat in 2006 but is expected to have a low impact on the economy in the coming years.

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 Peru'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 and 37.6% in 2006. 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.

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 Peru. 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 in 2004, with increases mainly in raw materials and capital goods. In 2006, trends continued, with exports rising to US\$23.8 billion and imports increasing to US\$14.9 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. In 2006, a record was registered with a surplus of US\$2.5 billion, equivalent to 2.6% of GDP.

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, grew to US\$2.2 billion in 2004, and was US\$0.2 billion in 2005. In 2006, surplus was US\$0.8 billion, mainly due to repayment of external debt made by the public sector.

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, US\$2.5 billion in 2005 and US\$3.4 billion in 2006.

The inflation rate in Peru, 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, 1.5% in 2005 and 1.1% in 2006. On the other hand, Peruvian Central Bank reduced its inflation target range for 2006 from -1% - +2.5% to -1% - +2%. It is worth mentioning that in the last five years the average inflation rate was below 2%.

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 the year at S/.3.430. After the presidential elections in 2006, the exchange rate decreased, closing the year at S/.3.196 for US\$1.00.

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. In 2006, a reduction was registered, closing at 23.1%.

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 2006, because of higher earnings generated from income tax, a surplus of 2.1% of GDP was achieved.

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, 13.6% in 2005 and 14.9% in 2006.

In July 1996, Peru reached an agreement with the Paris Club countries, resulting in the rescheduling of 1996-1998 maturities. Likewise, due to a successful program with this group of creditors, Peru was able to reduce its external debt from US\$8.5 billion at the end of 2004 to US\$5.6 million at the end of 2006. An additional pre-payment is expected in the second half of 2007, which could reach a total of US\$2.5 billion.

In 1999, Peru 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 macro-economic planning. However, the fall in tax revenue and increased spending in 1999 caused Peru 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, Peru reported a primary sector deficit of 0.1% in 1999 and of 0.2% in 2000. Peru 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 subsequent Stand-By Agreement was approved by the IMF on June 9, 2004 and covered 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%.

Currently, the Peruvian government is negotiating a new Stand-By Agreement for the years 2007-2009. A group of persons of the multilateral institution visited Peru in May 2007, and in an official communication, it was stated that the mission team expects the first review of the Stand-By Agreement to be presented for consideration to the Executive Board of IMF at the end of June 2007, after the approval of representatives in Washington, DC.

There can be no assurance that economic growth will be sustained in the future or that inflation in Peru 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 1980s 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 Peru, a summary of the Peruvian financial system is set forth below.

(i) General

At December 31, 2006, the Peruvian financial system consisted of the following principal participants: the Central Bank, the SBS, 11 banking institutions (not including Banco de la Nación, a Peruvian state-owned bank), five finance companies and five leasing companies. In addition, Peru has various mutual mortgage associations, municipal and rural savings and credit associations, municipal public credit associations and savings and credit cooperatives.

The present text of 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 Peru's money supply, administers international reserves, issues currency, determines Peru's balance of payments and other monetary accounts, and furnishes information regarding the country's financial situation. It also represents the government of Peru before the IMF and the Latin American Reserve Fund (a financial institution whose purpose is to provide balance of payments assistance to its member countries by granting credits or guaranteeing loans to third parties).

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 Peru.

(iv)

Financial System Institutions

Under Peruvian law, financial system institutions are classified as banks, financing companies, other non-banking institutions, specialized companies and investment banks. 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 Peru; (xiii) acting as financial agent for investments in Peru 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 Peru, in an amount not less than the minimum amount required of Peruvian banks.

Finance Companies

Under Law 26702, finance companies are authorized to carry out the same operations as banks, with the exception of (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.

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

Insurance Companies

Since the deregulation of the Peruvian insurance industry in 1991, insurance companies are authorized to conduct all types of operations and to enter into all forms of agreements necessary to offer risk coverage to customers. Insurance companies may also invest 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 Peru. The SBS is charged with the supervision and regulation of all insurance companies, and the formation of 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 13 in 2006.

(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 Peru, 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 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' by-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

Peru's Constitution and Law 26702 (which contains the statutory charter of the SBS) grant the SBS the authority to oversee and control banks and financial institutions (with the exception of brokerage firms), insurance and reinsurance companies, companies that receive deposits from the general public and other similar entities as defined 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 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, dissolutions 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 bye-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 Peru'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 Peru.

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 team 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 has completed its evaluation of internal controls over financial reporting and is now 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 weighting of 100%. Banks are required to prepare and submit to the SBS, within the first 15 days of each month, a report analyzing the bank's assets 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, 2006, BCP's unconsolidated amount of risk-weighted assets was 8.46 times the regulatory capital, or regulatory capital was 11.84% of risk-weighted assets which included US\$266.1 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, 2006, BCP's consolidated legal reserve was S/.546.5 million (US\$171 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. After six consecutive increases between December 2005 and May 2006, the Central Bank's Board of Directors decided to maintain the applicable interest rate at 4.5%. The 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. If a financial institution exceeds these limits, the SBS may impose a fine on the institution. As of December 31, 2006, the 10.0% credit limit per borrower of BCP, unconsolidated, was S/.233.6 million (US\$73.1 million) for unsecured loans, and the 30.0% limit amounted to S/.700.8 million (US\$219.3 million) for secured loans.

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 area 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 30 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 2006, BCP was assigned the "A+" risk category by its two rating agencies, 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 \$175,261 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 bye-laws; (iv) repeatedly manages its operations in an unauthorized or unsound manner; or (v) has its regulatory capital fall or be 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. Compliance with the Cayman Banking Law is monitored by 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-site 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 Peru 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, 2002, 2003, 2004, 2005 and 2006 reflect the consolidated financial position of Credicorp and its subsidiaries, including BCP, ASHC, PPS and Grupo Crédito, as of December 31, 2002, 2003, 2004, 2005 and 2006 and the results of operations for 2002, 2003, 2004, 2005 and 2006.

(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. Credicorp 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 stated 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 assets and liabilities using the following formula:

Where:

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

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

I = inflation rate in Peru for the period (based on the Peruvian consumer price index).

Under this 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.

The following tables show 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, 2004, 2005 and 2006.

Average Balance Sheets
Assets, Interest Earned and Average Interest Rates

	2004				Year ended December 31,				2006	
	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned	Real Avg. Rate	Nominal Avg. Rate	Average Balance	Interest Earned
<i>(U.S. Dollars in thousands, except percentages)</i>										
ASSETS:										
<i>Interest-earning assets:</i>										
Deposits in Central Bank										
Nuevos Soles	US\$5,892	US\$11	-3.20%	0.19%	US\$5,361	US\$50	-0.55%	0.93%	US\$13,346	US\$157
Foreign Currency	1,031,626	15,346	1.49	1.49	1,118,471	24,004	2.15	2.15	1,763,854	56,813
Total	1,037,518	15,357	1.46	1.48	1,123,832	24,054	2.13	2.14	1,777,200	56,970
Deposits in other banks										
Nuevos Soles	17,895	791	0.89	4.42	31,926	1,073	1.84	3.36	43,684	1,762
Foreign Currency	416,413	3,998	0.96	0.96	443,948	12,000	2.70	2.70	711,694	35,154
Total	434,308	4,789	0.96	1.10	475,874	13,073	2.65	2.75	755,378	36,916
Investment securities										
Nuevos Soles	560,910	21,547	0.33	3.84	1,221,669	51,222	2.66	4.19	985,054	51,545
Foreign Currency	1,186,002	72,356	6.10	6.10	1,290,919	73,138	5.67	5.67	1,589,978	89,760
Total	1,746,912	93,903	4.25	5.38	2,512,588	124,360	4.21	4.95	2,575,032	141,305
Total loans (1)										
Nuevos Soles	691,749	119,512	13.31	17.28	831,393	132,692	14.26	15.96	1,307,784	178,469
Foreign Currency	3,823,383	307,025	8.03	8.03	3,888,576	314,700	8.09	8.09	4,104,477	359,202
Total	4,515,132	426,537	8.84	9.45	4,719,969	447,392	9.18	9.48	5,412,261	537,671
Total dividend-earning assets										
Nuevos Soles	99,098	833	-2.57	0.84	65,234	2,252	1.93	3.45	119,106	6,171
Foreign Currency	62,237	1,423	2.29	2.29	65,511	1,301	1.99	1.99	109,129	2,970
Total	161,335	2,256	-0.70	1.40	130,745	3,553	1.96	2.72	228,235	9,141
Total interest-earning assets										
Nuevos Soles	1,375,544	142,694	6.64	10.37	2,155,583	187,289	7.09	8.69	2,468,974	238,104
Foreign Currency	6,519,661	400,148	6.14	6.14	6,807,425	425,143	6.25	6.25	8,279,132	543,899
Total	7,895,205	542,842	6.23	6.88	8,963,008	612,432	6.45	6.83	10,748,106	782,003
<i>Noninterest-earning assets:</i>										
Cash and due from banks										
Nuevos Soles	98,764				135,168				168,332	
Foreign Currency	161,976				179,250				200,523	
Total	260,740				314,418				368,855	
Reserves for loan losses										

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Nuevos Soles	(40,008)				(33,020)					(33,859)
Foreign Currency	(242,115)				(191,132)					(167,337)
Total	(282,123)				(224,152)					(201,196)
Premises and equipment										
Nuevos Soles	195,230				177,012					165,610
Foreign Currency	57,960				66,559					79,281
Total	253,190				243,571					244,891
Other non-interest-earning assets										
Nuevos Soles	175,316				141,397					84,716
Foreign Currency	261,810				320,424					412,659
Total	437,126				461,821					497,375
Total non-interest-earning assets										
Nuevos Soles	429,301				420,557					384,799
Foreign Currency	239,630				375,101					525,126
Total	668,931				795,658					909,925
Total average assets										
Nuevos Soles	1,804,845	142,694	4.26	7.91	2,576,140	187,289	5.70	7.27	2,853,773	238,104
Foreign Currency	6,759,291	400,148	5.92	5.92	7,182,526	425,143	5.92	5.92	8,804,258	543,899
Total	8,564,136	542,842	5.57	6.34	9,758,666	612,432	5.86	6.28	11,658,031	782,003

(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,									
	2004				2005					
	Average	Interest	Real	Nominal	Average	Interest	Real	Nominal	Average	Interest
	Balance	Paid	Avg. Rate	Avg. Rate	Balance	Paid	Avg. Rate	Avg. Rate	Balance	Paid
<i>(U.S. Dollars in thousands, except percentages)</i>										
LIABILITIES										
<i>Interest-bearing liabilities:</i>										
Demand deposits										
Nuevos Soles(1)	US\$349,584	2,911	-2.58%	0.83%	US\$641,920	US\$6,056	-0.54%	0.94%	US\$776,964	US\$8
Foreign Currency(1)	758,990	1,873	0.25	0.25	926,710	10,861	1.17	1.17	1,512,284	16
Total	1,108,574	4,784	-0.64	0.43	1,568,630	16,917	0.47	1.08	2,289,248	24
Savings deposits										
Nuevos Soles(1)	277,051	2,476	-2.52	0.89	452,826	3,495	-0.71	0.77	518,859	4
Foreign Currency(1)	1,024,073	3,740	0.37	0.37	1,118,117	5,739	0.51	0.51	1,238,890	7
Total	1,301,124	6,216	-0.25	0.48	1,570,943	9,234	0.16	0.59	1,757,749	12
Time deposits										
Nuevos Soles(1)	426,074	17,094	0.49	4.01	562,148	24,300	2.79	4.32	709,208	36
Foreign Currency(1)	2,210,780	67,871	3.07	3.07	2,944,558	76,954	2.61	2.61	3,068,947	124
Total	2,636,854	84,965	2.65	3.22	3,506,706	101,254	2.64	2.89	3,778,155	160
Due to banks and correspondents										
Nuevos Soles	134,280	11,257	4.72	8.38	159,892	3,162	0.48	1.98	249,212	14
Foreign Currency	539,268	25,425	4.71	4.71	448,419	18,260	4.07	4.07	865,365	45
Total	673,548	36,682	4.72	5.45	608,311	21,422	3.13	3.52	1,114,577	60
Bonds										
Nuevos Soles	122,006	9,658	4.27	7.92	122,521	9,655	6.30	7.88	153,178	11
Foreign Currency	298,816	17,993	6.02	6.02	295,821	14,677	4.96	4.96	292,984	14
Total	420,822	27,651	5.51	6.57	418,342	24,332	5.35	5.82	446,162	25
Total interest-bearing liabilities										
Nuevos Soles	1,308,995	43,396	-0.18	3.32	1,939,307	46,668	0.90	2.41	2,407,421	75
Foreign Currency	4,831,927	116,902	2.42	2.42	5,733,625	126,491	2.21	2.21	6,978,470	207
Total	6,140,922	160,298	1.87	2.61	7,672,932	173,159	1.88	2.26	9,385,891	283
<i>Non-interest-bearing liabilities and shareholders' equity:</i>										
Other liabilities										
Nuevos Soles	45,773				108,140				56,016	
Foreign Currency	1,334,980				770,712				862,715	
Total	1,380,753				878,852				918,731	
Equity attributable to Credicorp equity holders										

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Nuevos Soles	—	—	—							
Foreign Currency	967,288				1,133,773				1,247,195	
Total	967,288				1,133,773				1,247,195	
Minority Interest										
Nuevos Soles	—	—			—					
Foreign Currency	75,173				93,109				106,214	
Total	75,173				93,109				106,214	
Total										
non-interest-bearing liabilities and equity										
Nuevos Soles	45,773				108,140				56,016	
Foreign Currency	2,377,441				1,977,594				2,216,124	
Total	2,423,214				2,085,734				2,272,140	
Total average liabilities and equity										
Nuevos Soles	1,354,768	43,396	-0.29	3.20	2,047,447	46,668	0.78	2.28	2,463,437	75
Foreign Currency	7,209,368	116,902	1.62	1.62	7,711,219	126,491	1.64	1.64	9,194,594	207
Total	8,564,136	160,298	1.32	1.87	9,758,666	173,159	1.46	1.77	11,658,031	283

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

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

	2005/2004			2006/2005		
	Increase/(Decrease) due to changes in:		Net Change (U.S. Dollars in thousands)	Increase/(Decrease) due to changes in:		Net Change
	Volume	Rate		Volume	Rate	
Interest Income:						
Interest-earning deposits in Central Bank						
Nuevos Soles	(1)	40	39	74	33	107
Foreign Currency	1,292	7,366	8,658	13,851	18,958	32,809
Total	1,291	7,406	8,697	13,925	18,991	32,916
Deposits in other banks						
Nuevos Soles	620	(338)	282	395	294	689
Foreign Currency	264	7,738	8,002	7,237	15,917	23,154
Total	884	7,400	8,284	7,632	16,211	23,843
Investment securities						
Nuevos Soles	25,383	4,292	29,675	(9,921)	10,244	323
Foreign Currency	6,401	(5,619)	782	16,943	(321)	16,622
Total	31,784	(1,327)	30,457	7,022	9,923	16,945
Total loans ⁽¹⁾						
Nuevos Soles	24,126	(10,946)	13,180	76,033	(30,256)	45,777
Foreign Currency	5,235	2,440	7,675	17,473	27,029	44,502
Total	29,361	(8,506)	20,855	93,506	(3,227)	90,279
Total dividend-earning assets						
Nuevos Soles	(285)	1,704	1,419	1,860	2,059	3,919
Foreign Currency	75	(197)	(122)	866	803	1,669
Total	(210)	1,507	1,297	2,726	2,862	5,588
Total interest-earning assets						
Nuevos Soles	80,918	(36,323)	44,595	27,229	23,586	50,815
Foreign Currency	17,662	7,333	24,995	91,912	26,844	118,756
Total	98,580	(28,990)	69,590	119,141	50,430	169,571
Interest Expense:						
Demand deposits						
Nuevos Soles	2,434	711	3,145	1,274	1,301	2,575
Foreign Currency	414	8,574	8,988	6,863	(1,574)	5,289
Total	2,848	9,285	12,133	8,137	(273)	7,864
Savings deposits						
Nuevos Soles	1,571	(552)	1,019	510	912	1,422
Foreign Currency	343	1,656	1,999	620	1,560	2,180
Total	1,914	1,104	3,018	1,130	2,472	3,602
Time deposits						
Nuevos Soles	5,459	1,747	7,206	6,357	5,564	11,921
Foreign Currency	22,527	(13,444)	9,083	3,251	44,139	47,390
Total	27,986	(11,697)	16,289	9,608	49,703	59,311
Due to banks and correspondents						

and issued bonds						
Nuevos Soles	2,147	(10,242)	(8,095)	1,766	9,942	11,708
Foreign Currency	(4,283)	(2,882)	(7,165)	16,978	9,905	26,883
Total	(2,136)	(13,124)	(15,260)	18,744	19,847	38,591
Bonds						
Nuevos Soles	41	(44)	(3)	2,416	(1,030)	1,386
Foreign Currency	(180)	(3,136)	(3,316)	(141)	(294)	(435)
Total	(139)	(3,180)	(3,319)	2,275	(1,324)	951
Total interest-bearing liabilities						
Nuevos Soles	20,896	(17,624)	3,272	11,265	17,747	29,012
Foreign Currency	21,815	(12,226)	9,589	27,463	53,844	81,307
Total	42,711	(29,850)	12,861	38,728	71,591	110,319

(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,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands, except percentages)</i>		
Average interest-earning assets			
Nuevos Soles	1,375,544	2,155,583	2,468,974
Foreign Currency	6,519,661	6,807,425	8,279,132
Total	7,895,205	8,963,008	10,748,106
Net interest income			
Nuevos Soles	99,298	140,621	162,424
Foreign Currency	283,246	298,652	336,101
Total	382,544	439,273	498,525
Gross yield (1)			
Nuevos Soles	10.37%	8.69%	9.64%
Foreign Currency	6.14%	6.25%	6.57%
Weighted-average rate	6.88%	6.83%	7.28%
Net interest margin (2)			
Nuevos Soles	7.22%	6.52%	6.58%
Foreign Currency	4.34%	4.39%	4.06%
Weighted-average rate	4.85%	4.90%	4.64%
Yield spread (3)			
Nuevos Soles	7.06%	6.28%	6.50%
Foreign Currency	3.72%	4.04%	3.59%
Weighted-average rate	4.27%	4.58%	4.26%

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

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

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

Interest-Earning Deposits With Other Banks

The following table shows the short-term funds deposited with other banks broken down by currency as of the dates indicated. Deposits held in countries other than Peru are denominated in several currencies; however, the substantial majority of such deposits are denominated in U.S. Dollars. These currencies were converted to U.S. Dollars using the applicable SBS exchange rate as of the date of relevant balance.

	2004	Year ended December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Nuevo Sol-denominated:			
Peruvian Central Bank	17,142	1,224	53,163
Commercial banks	31,379	55,941	55,819
Total Nuevo Sol-denominated	48,521	57,165	108,982
Foreign Currency-denominated:			
Peruvian Central Bank (U.S. Dollars)	1,085,349	1,597,929	1,355,155
U.S. Dollars, other	455,178	632,698	739,028
Other	4,852	8,076	55,506
Total Foreign Currency-denominated	1,545,379	2,238,703	2,149,689
Total	1,593,900	2,295,868	2,258,671

(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.

	2004	At December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Nuevo Sol-denominated:			
Peruvian government bonds	56,594	129,137	156,890
Equity securities	112,785	144,919	148,333
Bonds	67,878	91,065	74,010
Peruvian Central Bank certif. notes	682,418	835,287	1,277,613
Other investments	5,994	40,287	264,112
Total Nuevo Sol-denominated	925,669	1,240,695	1,920,958
Foreign Currency-denominated:			
Equity securities	68,573	63,332	102,543
Bonds	610,402	891,666	1,114,211
Investment in Peruvian debt	357,145	185,138	268,235
Peruvian Central Bank certif. notes	—	310,528	—
Other investment	257,458	163,894	61,634
Total Foreign Currency-denominated	1,293,578	1,614,558	1,546,623
Total securities holdings	2,219,247	2,855,253	3,467,581

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 securities was 3.8% in 2004, 4.2% in 2005, and 5.2% in 2006. The weighted-average yield on Credicorp's foreign currency-denominated portfolio was 6.1% in 2004, 5.7% in 2005 and 2006. The total weighted-average yield of Credicorp's investment securities was 5.4% in 2004, 5.0% in 2005, and 5.5% in 2006.

The weighted-average yield on Credicorp's Nuevo Sol-denominated dividend-earning assets was 0.8% in 2004, 3.5% in 2005, and 5.2% in 2006. The weighted-average yield on Credicorp's foreign currency-denominated portfolio was 2.3% in 2004, 2.0% in 2005 and 2.7% in 2006. The total weighted-average yield of Credicorp's dividend -earning assets was 1.4% in 2004, 2.7% in 2005 and 4.0% in 2006.

The following table shows the maturities of Credicorp's trading and available-for-sale investment securities by type at December 31, 2006:

	Within 1 year	After 1 year but within 3 years	Maturing After 3 years but within 5 years	Maturing After 5 years but within 10 years	After 10 Years	Total
	<i>(U.S. Dollars in thousands, except percentages)</i>					
Nuevo Sol-denominated:						
Peruvian government bonds	US\$1,725	US\$6,845	US\$36,212	US\$29,816	US\$82,292	US\$156,890
Equity securities (1)	148,333	—	—	—	—	148,333
Bonds and debentures	12,843	22,362	10,462	3,130	25,213	74,010
Peruvian Central Bank certif. notes	1,236,091	41,522	—	—	—	1,277,613
Other investments	241,681	5,718	4,781	—	11,932	264,112
Total Nuevo Sol-denominated	US\$1,640,673	US\$76,447	US\$51,455	US\$32,946	US\$119,437	US\$1,920,958
Foreign Currency-denominated:						
Peruvian Government Bonds	1,475	24,034	4,874	114,327	123,525	268,235
Equity securities (1)	102,543	—	—	—	—	102,543
Bonds Peruvian Central Bank certificates notes	160,131	342,635	160,143	167,549	283,753	1,114,211
Other investments	18,257	6,197	12,334	18,292	6,554	61,634
Total Foreign Currency-denominated	US\$282,406	US\$372,866	US\$177,351	US\$300,168	US\$413,832	US\$1,546,623
Total securities holdings:	US\$1,923,079	US\$449,313	US\$228,806	US\$333,114	US\$533,269	US\$3,467,581
Weighted average yield						5.37%

(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, 2006 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,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Loans	US\$3,268,103	US\$3,284,141	US\$3,507,831	US\$3,865,643	US\$4,662,730
Leasing transactions	491,666	452,635	424,902	564,575	675,804
Discounted notes	180,314	176,991	183,519	213,232	256,534
Factoring	62,302	56,446	58,116	87,757	89,171
Advances and overdrafts	169,132	45,827	48,506	49,283	84,262
Refinanced loans	330,842	296,116	243,892	175,211	126,006
Past due loans	406,135	256,208	159,057	95,769	76,770
Unearned interest	(90,831)	(86,868)	(66,805)	(78,495)	(93,916)
Total loans:	US\$4,817,663	US\$4,481,496	US\$4,559,018	US\$4,972,975	US\$5,877,361
Total past due loans amounts	(406,135)	(256,208)	(159,057)	(95,769)	(76,770)
Total performing loans	US\$4,411,528	US\$4,225,288	US\$4,399,961	US\$4,877,206	US\$5,800,591

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 area 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. A loan is 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. Since July 1999, Credicorp 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. 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:

Economic Activity	2002		At December 31, 2003		2004	
	Amount	% Total	Amount	% Total	Amount	% Total
	<i>(U.S. Dollars in thousands, except percentages)</i>					
Manufacturing	US\$1,592,191	33.05%	US\$1,461,350	32.61%	US\$1,376,874	30.20%
Consumer Loans (1)	522,998	10.86	1,033,881	23.07	1,187,378	26.04
Commerce	617,491	12.82	560,052	12.50	523,574	11.48
Realty Businesses and Leasing Services	281,753	5.85	233,506	5.21	224,745	4.93
Mining	227,879	4.73	233,355	5.21	194,022	4.26
Communication, Storage and Transportation	209,174	4.34	189,612	4.23	181,018	3.97
Electricity, Gas and Water	302,976	6.29	211,610	4.72	248,571	5.45
Agriculture	158,500	3.29	142,697	3.18	160,167	3.51
Fishing	104,604	2.17	90,786	2.03	68,604	1.50
Financial Services	210,404	4.37	96,371	2.15	90,042	1.98
Education, Health and Other Services	93,851	1.95	99,702	2.22	62,341	1.37
Construction	86,632	1.80	70,676	1.58	72,879	1.60
Others (2)	500,041	10.38	144,766	3.23	235,608	5.17
Sub total	4,908,494	101.89	4,568,364	101.94	4,625,823	101.47
Unearned interest	(90,831)	-1.89	(86,868)	-1.94	(66,805)	-1.47
Total	US\$4,817,663	100.00%	US\$4,481,496	100.00%	US\$4,559,018	100.00%

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

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

Economy Activity	2005		At December 31, 2006	
	Amount	% Total	Amount	% Total
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Manufacturing	US\$1,430,559	28.77%	US\$1,624,765	27.65%
Consumer Loans (1)	1,364,910	27.45	1,729,682	29.43
Commerce	625,908	12.59	686,291	11.68
Realty Businesses and Leasing Services	216,095	4.35	236,445	5.16
Mining	223,156	4.49	303,238	4.36
Communication, Storage	210,002	4.22	255,730	2.55

and Transportation

Electricity, Gas and Water	192,096	3.86	256,541	4.02
Agriculture	153,410	3.08	150,020	2.79
Fishing	117,104	2.35	152,538	1.27
Financial Services	105,484	2.12	163,946	4.35
Education, Health and Other Services	69,468	1.40	75,376	1.28
Construction	68,217	1.37	74,482	2.60
Others (2)	275,061	5.53	262,223	4.46
Sub total	5,051,470	101.58	5,971,277	101.60
Unearned interest	(78,495)	-1.58	(93,916)	-1.60
Total	US\$4,972,975	100.00%	US\$5,877,361	100.00%

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

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

As of December 31, 2006, 66.2% of the loan portfolio was concentrated in Lima and 91.79% was concentrated in Peru. An additional 6.76% 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, 2006 were US\$1,255.9 million, of which US\$1,086.2 million were outstanding loans representing 18.5% of the total loan portfolio. See “—(11) Supervision and Regulation—(ii) BCP—Lending Activities” for the definition of economic group. Total loans and other contingent credits outstanding to these customers ranged from US\$119.7 million to US\$42.6 million, including fifteen 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, 2006: Class A (normal)—90.9%; Class B (potential problems)—8.9%; Class C (substandard)—0.2%; Class D (doubtful)—0%; and Class E (loss)—0%. See “—Classification of the Loan Portfolio.”

BCP's loans to a single borrower are subject to lending limits imposed by Law 26702. See “—(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 5%, 10% or 30% of BCP's regulatory capital, depending upon the governmental supervision to which the institution is subject and upon whether it is recognized by the Central Bank as an international bank of prime credit quality. The limits on lending to non-Peruvian financial institutions increase to 50% of BCP's regulatory capital if the amount by which such loans exceed the 5%, 10% or 30% limits is backed by certain letters of credit.

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 Peru 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 Peru that are not financial institutions is limited to 10% of BCP's regulatory capital. This limit rises to 15% if the additional 5% is guaranteed by a mortgage, certain securities, equipment or other collateral and to 20% if the additional amount is either backed by certain debt instruments guaranteed by other local banks, or a foreign bank determined by the Central Bank of prime credit quality, or by other highly liquid securities at market value. Finally, the single borrower lending limit for loans backed by a cash deposit at BCP or by debt obligations of the Central Bank is 30% of BCP's regulatory capital. With an unconsolidated regulatory capital of S/.2,335.9 million (US\$730.9 million) at December 31, 2006 BCP's legal lending limits vary from S/.116.8 million (US\$36.5 million) to S/.1,168.0 million (US\$365.4 million). Credicorp's consolidated lending limits, based on its regulatory capital on a consolidated basis of US\$1,008.0 million at December 31, 2006, would range from US\$50.4 million to US\$504.0 million. As of December 31, 2006, BCP was in compliance with all Law 26702 lending limits.

As of December 31, 2006, 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.

	2002		At December 31, 2003		2004	
	US\$	%	US\$	%	US\$	%
Total loan portfolio:	<i>(U.S. Dollars in thousands, except percentages)</i>					
Nuevo Sol-denominated	US\$677,506	14.06%	US\$723,955	16.15%	US\$662,058	14.52%
Foreign Currency-denominated	4,140,157	85.94%	3,757,541	83.85%	3,896,960	85.48%
Total loans	US\$4,817,663	100.00%	US\$4,481,496	100.00%	US\$4,559,018	100.00%

	2005		At December 31, 2006	
	US\$	%	US\$	%
Total loan portfolio:	<i>(U.S. Dollars in thousands, except percentages)</i>			
Nuevo Sol-denominated	US\$1,032,481	20.76%	US\$1,492,681	25.40%
Foreign Currency-denominated	3,940,494	79.24%	4,384,680	74.60%
Total loans	US\$4,972,975	100.00%	US\$5,877,361	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, 2006, by type and by time remaining to maturity. Loans are stated before deduction of the reserves for loan losses.

	Amount at December 31, 2006	Maturing				
		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
Loans	US\$4,662,730	US\$1,939,902	US\$1,070,786	US\$493,145	US\$354,986	US\$803,911
Leasing transactions	675,804	135,036	137,211	276,230	97,490	29,837
Discounted notes	256,534	239,559	16,663	260	24	28
Refinanced loans	126,006	44,141	18,301	27,603	12,158	23,803
Factoring	89,171	88,836	335	—	—	—
Advances and overdrafts	84,262	81,375	2,566	220	60	41
Total	US\$5,894,507	US\$2,528,849	US\$1,245,862	US\$797,458	US\$464,718	US\$857,620
	100.00%	42.90%	21.14%	13.53%	7.88%	14.55%

Percentage of
total performing
loan portfolio

78

Interest Rate Sensitivity of the Loan Portfolio

The following table sets forth the interest rate sensitivity of the loan portfolio at December 31, 2006, by currency and by the time remaining to maturity over one year:

	Amount at December 31, 2006	Maturing After 1 year
	<i>(U.S. Dollars in thousands)</i>	
Variable Rate		
Nuevo Sol-denominated	US\$82,035	US\$109
Foreign Currency-denominated	860,633	68,700
Total	942,668	68,809
Fixed Rate (2)		
Nuevo Sol-denominated	1,410,646	289,825
Foreign Currency-denominated	3,524,047	1,761,162
Total	4,934,693	2,050,987
Total (1)	US\$5,877,361	US\$2,119,796

(1) Net of unearned interest

(2) Most of financial products with fixed rates can be switched to variable rates according to market conditions 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 losses not specifically identified on the loan portfolio.

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

	At December 31,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Commercial loans	US\$3,659,762	US\$3,308,112	US\$3,259,950	US\$3,252,018	US\$3,792,756
Consumer loans	205,696	251,785	283,410	356,595	506,184
Residential mortgage loans	547,005	549,220	649,930	844,892	980,630
Leasing transactions (1)	405,200	372,379	365,728	519,470	597,791
Total performing loans	US\$4,817,663	US\$4,481,496	US\$4,559,018	US\$4,972,975	US\$5,877,361

(1) Net of unearned interest.

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.

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 losses not specifically identified 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 loans in Classes C, D and E are considered impaired, and they 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 incurred 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:

Level of Risk Classification	At December 31,					
	2002		2003		2004	
	Amount	% Total	Amount	% Total	Amount	% Total
	<i>(U.S. Dollars in thousands, except percentages)</i>					
A: Normal (1)	US\$3,543,152	73.5%	US\$3,393,833	75.7%	US\$3,719,973	81.6%
B: Potential Problems	456,056	9.5	437,682	9.8	336,619	7.4
C: Substandard	334,423	6.9	240,316	5.4	195,062	4.3
D: Doubtful	239,101	5.0	266,723	6.0	184,206	4.0
E: Loss	244,931	5.1	142,942	3.1	123,158	2.7
Total	US\$4,817,663	100.00%	US\$4,481,496	100.00%	US\$4,559,018	100.0%
C+D+E	US\$818,455	17.0%	US\$649,981	14.5%	US\$502,426	11.0%

Level of Risk Classification	At December 31,			
	2005		2006	
	Amount	% Total	Amount	% Total
A: Normal (1)	US\$4,273,719	85.9%	US\$5,296,653	90.1%
B: Potential Problems	397,387	8.0%	337,497	5.7%
C: Substandard	82,858	1.7%	62,192	1.1%
D: Doubtful	146,898	3.0%	122,215	2.1%
E: Loss	72,113	1.4%	58,804	1.0%
Total	US\$4,972,975	100.0%	US\$5,877,361	100.0%
C+D+E	US\$301,869	6.1%	US\$243,211	4.1%

(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.

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 for consumer mortgage and leasing loans, and loans to micro-businesses 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 or when the borrower or securities' issuer defaults, if earlier 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\$15.0 million in 2002, US\$11.0 million in 2003, US\$6.2 million in 2004, US\$5.5 million in 2005 and US\$4.8 million in 2006. 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,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands, except percentages)</i>				
Current	US\$4,411,528	US\$4,225,288	US\$4,399,961	US\$4,877,206	US\$5,800,591
Past due:					
Overdue 16-119 days	82,259	50,981	11,572	10,860	20,655
Overdue 120 days or more	323,876	205,227	147,485	84,909	56,115
Subtotal	US\$406,135	US\$256,208	US\$159,057	US\$95,769	US\$76,770
Total loans	US\$4,817,663	US\$4,481,496	US\$4,559,018	US\$4,972,975	US\$5,877,361
Past due loan amounts as a percentage of total loans	8.43%	5.72%	3.49%	1.93%	1.31%

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,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Past due loan amounts:					
Loans	US\$322,179	US\$194,761	US\$85,467	US\$63,889	US\$57,345
Discounted notes	4,513	1,531	776	1,124	596
Advances and overdrafts in demand deposits	7,892	3,400	4,157	3,412	1,844
Leasing transactions	17,231	8,716	9,387	6,412	5,237
Refinanced loans	54,320	47,800	59,270	20,932	11,748
Total past due portfolio	US\$406,135	US\$256,208	US\$159,057	US\$95,769	US\$76,770
Less: Reserves for loan losses(1)	US\$424,031	US\$326,677	US\$271,873	US\$218,636	US\$210,586
Total past due portfolio net of reserves	(US\$17,896)	(US\$70,469)	(US\$112,816)	(US\$122,867)	(US\$133,816)

(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\$28.1 million and US\$25.8 million as of December 31, 2006 and 2005, 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,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Reserves for loan losses at the beginning of the year	US\$344,433	US\$424,031	US\$326,677	US\$271,873	US\$218,636
Additional provisions (reversals)	99,596	66,421	16,131	(6,356)	(4,243)
Acquisitions and transfers	122,841	—	—	(9,024)	—
Recoveries of write-offs	12,050	17,416	32,287	35,032	44,284
Write-offs	(150,102)	(185,688)	(105,267)	(71,405)	(49,859)
Monetary correction and other	(4,787)	4,497	2,045	(1,484)	1,768
Total reserves for loan losses at the end of the year	US\$424,031	US\$326,677	US\$271,873	US\$218,636	US\$210,586

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, 2006 include US\$190.3 million of reserves for credit losses and US\$20.3 million of reserves for indirect or contingent credit losses (US\$197.5 million and US\$21.1 million as of December 31, 2005, 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 11(a) to the Credicorp Consolidated Financial Statements).

The charge-off process is performed with prior approval of the Board of Directors and of SBS, which is considered on a case-by-case basis.

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,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Commercial loans	US\$388,809	US\$283,470	US\$228,554	US\$174,929	US\$170,755
Consumer loans	14,879	14,479	14,079	16,433	16,717
Residential mortgage loans	13,521	24,414	21,375	14,291	20,522
Leasing transactions	6,822	4,314	7,865	12,983	2,592
Total reserves	US\$424,031	US\$326,677	US\$271,873	US\$218,636	US\$210,586

(iv)

Deposits

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

	At December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Demand deposits:			
Nuevo Sol-denominated	US\$507,924	US\$725,878	US\$996,246
Foreign Currency-denominated	1,242,353	1,075,436	1,796,187
Total	US\$1,750,277	US\$1,801,314	2,792,433
Savings deposits:			
Nuevo Sol-denominated	US\$403,579	US\$483,695	US\$610,292
Foreign Currency-denominated	1,179,923	1,621,669	1,341,686
Total	US\$1,583,502	US\$2,105,364	US\$1,951,978
Time deposits:			
Nuevo Sol-denominated	US\$431,741	US\$391,374	US\$862,901
Foreign Currency-denominated	1,920,459	2,068,533	2,355,256
Total	US\$2,352,200	US\$2,459,907	US\$3,218,157
Foreign Currency Bank Certificates			
Foreign Currency-denominated	US\$54,310	US\$46,378	US\$61,539
Severance Indemnity Deposits (CTS):			
Nuevo Sol-denominated	US\$47,986	US\$70,435	US\$103,282
Foreign Currency-denominated	482,697	584,356	671,745
Total	US\$530,683	US\$654,791	US\$775,027
Total deposits:			

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Nuevo Sol-denominated	US\$1,391,230	US\$1,671,382	US\$2,572,721
Foreign Currency-denominated	4,879,742	5,396,372	6,226,413
Total	US\$6,270,972	US\$7,067,754	US\$8,799,134

85

The following table sets forth information regarding the maturity of Credicorp's time deposits in denominations of US\$100,000 or more at December 31, 2006:

	At December 31, 2006 <i>(U.S. Dollars in thousands)</i>
Certificates of deposit:	
Maturing within 30 days	US\$32,474
Maturing after 30 but within 60 days	876
Maturing after 60 but within 90 days	5,122
Maturing after 90 but within 180 days	5,570
Maturing after 180 but within 360 days	—
Maturing after 360 days	27,184
Total certificates of deposits	US\$71,226
Time deposits:	
Maturing within 30 days	US\$1,356,792
Maturing after 30 but within 60 days	378,776
Maturing after 60 but within 90 days	166,582
Maturing after 90 but within 180 days	321,409
Maturing after 180 but within 360 days	300,195
Maturing after 360 days	127,608
Total time deposits	US\$2,651,362
Total	US\$2,722,588

(v)

Return on Equity and Assets

	At December 31,		
	2004	2005	2006
Return on assets (1)	1.50%	1.81%	1.92%
Return on equity (2)	13.55%	16.39%	18.47%
Dividend payout ratio (3)	48.80%	48.24%	45.08%
Credicorp's equity to assets ratio (4)	11.29%	11.41%	10.70%
Shareholders' equity to assets ratio (5)	10.42%	10.46%	9.79%

(1) Net income attributable to equity holders of Credicorp as a percentage of average total assets, computed as the average of period beginning and period ending balances.

(2) Net income attributable to equity holders of Credicorp as a percentage of average net equity attributable to Credicorp's equity holders, computed as the average of monthly balances.

(3) Dividends declared per share divided by net income attributable to Credicorp's equity holders per share.

(4) Average equity attributable to Credicorp's equity holders divided by average total assets, both averages computed as the average of month-ending balances.

(5) Average equity attributable to Credicorp's equity shareholders divided by average total assets, both averages computed as the average of month-ending balances.

86

(vi) Short-Term Borrowings

Credicorp's short-term borrowings, other than deposits, amounted to US\$234.0 million, US\$878.2 million and US\$360.8 million as of December 31, 2004, 2005 and 2006, respectively. Average balances of borrowed amounts remained at relatively low levels during 2004, 2005 and 2006 mostly due to excess liquidity at BCP. The outstanding balance at December, 31 2005 includes BCRP-Repo transactions entered into with the Central Bank, representing US\$510.6 million, which earned annual interest rates between 3.23% and 3.32%, with 3 day maturities. As of December 31, 2006, no BCRP-Repo transactions exist in the outstanding balance.

The following table sets forth Credicorp's short-term borrowings:

	2004	At December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Year-end balance	US\$233,951	US\$878,237	US\$360,801
Average balance	US\$150,279	US\$307,930	US\$479,657
Maximum quarter-end balance	US\$233,951	US\$878,237	US\$792,609
Weighted average nominal Year-end interest rate	4.22%	4.38%	5.00%
Weighted average nominal Interest rate	3.83%	4.69%	4.81%

(C) Organizational Structure

Although historically there has been substantial overlap among the shareholders of BCP, ASHC and PPS, for reasons related to the regulatory, political and economic environment in Peru, they have been managed independently from one another. Credicorp was formed in 1995 by the management of BCP for the purpose of acquiring, pursuant to the Exchange Offer, the common shares of BCP, ASHC and PPS. In the October 1995 Exchange Offer, Credicorp acquired 90.1% of BCP (391,973,951 shares), 98.2% of ASHC (39,346,169 shares), and 75.8% of PPS (5,537,474 shares) in exchange for 60,815,152 Common Shares at a ratio of 0.10401, 0.33708 and 1.2249 Common Shares per common share of BCP, ASHC and PPS, respectively. The Common Shares commenced trading on the New York Stock Exchange immediately upon consummation of the Exchange Offer, with a closing price on such day of US\$11.61 (adjusted to reflect stock dividends through May 1999).

On March 19, 1996, Credicorp acquired pursuant to an exchange offer with the same terms as the Exchange Offer the remaining 1.8% of the outstanding shares of ASHC (702,674 shares) in exchange for 237,859 Common Shares at a ratio of 0.33708 Common Shares per common share of ASHC. The closing price of the Common Shares on the New York Stock Exchange on the date of consummation of that exchange offer was US\$10.98 (adjusted to reflect stock dividends). See "Item 9. The Offer and Listing—(A) Offer and Listing Details—Price History of Credicorp's Stock" and "Item 8. Financial Information—Dividend Policy."

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

Peruvian provider of financial services in Peru.

BCP began operations in 1889 as Banco Italiano and changed its name to Banco de Crédito del Perú in 1941. BCP has been the largest commercial bank in Peru since the 1920s. Members of the Romero family have been shareholders of BCP since 1918 and became the controlling shareholders in 1979. Mr. Dionisio Romero, Chairman of the Board and Chief Executive Officer of Credicorp, was a member of the Board of Directors of BCP from 1966 to 1987, becoming Chairman in 1979. In response to then President of Peru, Alan García's 1987 attempt to nationalize the Peruvian banking industry, the majority shareholders at that time, including Mr. Romero, sold a controlling interest in BCP and transferred management to its employees, which prevented the government from gaining control of BCP. Upon the election of Alberto Fujimori as President of Peru in 1990 and the introduction of market reforms, the Romero family reestablished its shareholding in BCP and Mr. Romero and several former key managers of BCP returned to BCP. See “—(9) Peruvian Government and Economy—(i) Peruvian Government.” Members of the Romero family exchanged their BCP shares in the Exchange Offer, and now hold 16.01% of the Common Shares of Credicorp. See “Item 7. Major Shareholders and Related Party Transactions—(A) Major Shareholders.”

87

ASHC was incorporated in December 1981 as a wholly-owned subsidiary of BCP, under the name Crédito del Perú Holding Corporation (“BCP International”), in the Cayman Islands and became the first Peruvian bank to establish an offshore banking presence to serve its Peruvian customers. In 1983, BCP dividdened the shares of BCP International to the shareholders of BCP to protect its privately held status in the event that BCP was nationalized. BCP International established its first physical presence offshore (previously having been operated through BCP’s corporate offices) by opening an office in Panama in 1984, and opening an agency in Miami in 1986. Also in 1986, BCP International changed its name to ASCH. As a result of the attempted expropriation by the government in 1987, ASHC’s operations and management were made independent of BCP. In 2002, ASHC closed its Miami agency at the same time that BCP opened its agency in the same city. Also in Miami, Credicorp Securities was established as a wholly-owned subsidiary of Credicorp and began operating in early 2003 serviced by former ASHC personnel.

Credicorp owns 75.72% of PPS, which was formed in 1992 as a result of a merger between El Pacífico Compañía de Seguros y Reaseguros S.A. and Compañía de Seguros y Reaseguros Peruano-Suiza S.A., and is the second largest Peruvian insurance company in terms of premiums sold and health fees. PPS’s major subsidiaries are Pacífico Vida, which specializes in life and pension fund insurance, and Pacífico Salud, which provides health insurance as an alternative to public social security.

Credicorp owns 99.99% of Grupo Crédito S.A., which is the principal shareholder in Prima AFP and holds equity shares in Peruvian electric utilities and other non-financial companies.

BCB (formerly Banco Popular S.A., Bolivia), another Credicorp subsidiary, was acquired by BCP for US\$6.2 million in November 1993. After transferring to BCP a 53.1% stake in November 2001, Credicorp holds directly 2.7% of BCB’s equity with the rest held through BCP. In December 2002, BCP acquired BSCH-Perú, which was merged into BCP on February 28, 2003.

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. BCOL’s business of taking offshore U.S. Dollar deposits and making U.S. Dollar-denominated loans to large Peruvian customers has been taken over by both BCP’s Panama branch and by ASHC.

Credileasing conducts lease financing operations and began operating in July 1996, taking over the operations previously managed by Financiera de Crédito, which simultaneously became Solución, specializing in consumer and micro-business lending.

Solución was spinned off into two companies, one of which retained only cash and equity which the other was merged into BCP’s Peruvian banking operations in March 2004 after becoming a wholly-owned subsidiary of BCP in March 2003 as a result of BCP acquiring the remaining 45% of Solución’s equity interests.

In March 2005, Credicorp completed the sale of Banco Tequendama to a Colombian bank. The effective date of the sale was January 1, 2005, and Credicorp did not record any significant gain as a result of the transaction. At December 31, 2004, Banco Tequendama had US\$306.7 million in loans and US\$290.5 million in deposits. Banco Tequendama was acquired by Credicorp in January 1997 from the *Fondo de Garantía de Depósitos y Protección Bancaria* (“FOGADE”), the Venezuelan government entity responsible for the re-privatization of assets seized by that government in connection with the widespread problems faced by the Venezuelan banking sector beginning in 1994. Credicorp, along with FOGADE and FOGADE’s financial adviser, were sued in Aruba by the former owners of Banco Tequendama, who are seeking compensation for damages. The Judge in the Court of first instance in Aruba dismissed the claim and the plaintiff appealed. In April 2004, the Court of Appeals in Aruba rejected all claims from the former owners. The former owners had originally sued unsuccessfully in Colombia.

On August 24, 2006, Credicorp, through its subsidiary Prima AFP, acquired from Grupo Santander Perú S.A. the shares that this company had in AFP Unión Vida S.A., a pension fund management company that operates in Peru, representing 99.97% of its capital stock and made a tender offer to the minority shareholders in order to acquire the remaining 0.03 percent of the capital stock. The total purchase price amounted to approximately US\$141.5 million. At the general shareholder’s meeting of Prima AFP, held on September 6, 2006, the merger with AFP Unión Vida S.A. was approved, with effective date of December 1, 2006.

(D) Property, Plants and Equipment

At December 31, 2006, Credicorp had 339 branches, representative and similar offices, of which 137 were branch offices of BCP in Lima. Credicorp’s principal properties include the headquarters of BCP, at Calle Centenario 156, La Molina, Lima 12, Perú, and the headquarters of PPS at Juan de Arona 830, Lima, Perú. Credicorp owns these properties, with the exception of approximately 186 properties which it holds under leases. There are no material encumbrances on any of Credicorp’s properties.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

(A) Operating Results

(1) Critical Accounting Policies

Accounting policies applied by Credicorp are integral to the understanding of its results of operations and financial condition. The accounting policies are described in Note 3 to the Credicorp Consolidated Financial Statements (Significant Accounting Policies to the Credicorp Consolidated Financial Statements), which are prepared in accordance with IFRS. Additionally, Note 29 to the Credicorp Consolidated Financial Statements describes certain significant differences between IFRS and U.S. GAAP. The following is a summary of those critical accounting policies.

Allowance for loan losses

Direct loans are recorded when disbursement of funds to the clients are made. Indirect (off-balance sheet) loans are recorded when documents supporting such facilities are issued. Likewise, Credicorp considers as refinanced or restructured those loans that change their payment schedules due to difficulties in the debtor’s ability to repay the loan.

An allowance for credit loss is established if there is objective evidence that Credicorp will not be able to collect all amounts due according to the original contractual terms of the loan. For such purpose, Credicorp classifies all its loans into one of five risk categories, depending upon the degree of risk of nonpayment of each loan. The categories used by Credicorp are: (i) normal, (ii) potential problems, (iii) substandard, (iv) doubtful and (v) loss. Credicorp reviews its loan portfolio on a continuing basis in order to assess the completion and accuracy of its classification. For commercial loans, the classification takes into consideration several factors, such as the payment history of the particular loan, the history of Credicorp's dealings with the borrower's management, operating history, repayment capability and availability of funds of the borrower, status of any collateral and 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 in the market and other relevant factors. For micro-business, consumer and residential mortgage, the classification is based on how long payments are overdue.

The allowance for credit losses is established based in the risk classifications and taking into consideration the guarantees and collateral obtained by Credicorp. Only collateral received and classified as "preferred," "highly liquid preferred" or "self-liquidating preferred" is considered acceptable. Such collateral must be relatively liquid, have legally documented ownership, have no liens outstanding and have updated independent appraisals.

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 provisions provided.

All loans considered impaired (the ones classified as substandard, doubtful and loss) are analyzed by Credicorp management, 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 the estimated losses for impaired loans not specifically identified.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated income statements.

Investments

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

Investments acquired, including those directly from the issuer, mainly with the purpose of generating profits based on short-term price fluctuations, and are considered as financial assets at fair value through profit or loss (hereinafter “trading securities”). Investments available-for-sale are those intended to be held for an indefinite period, which may be sold in response to liquidity needs or changes in the interest rates, exchange rates or equity prices.

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

Estimated fair values are based primarily on quoted prices or, if quoted market prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. All related realized and unrealized gains and losses of trading 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.

Derivative financial instruments

Trading:

Most transactions with derivatives, while providing effective economic hedges under Credicorp’s risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as trading derivatives.

Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained based on the market exchange rates or interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gain and losses for changes in their fair value are recorded in the consolidated income statements.

Hedges:

To qualify as a hedge, a derivative must be highly effective in offsetting the risk designated as being hedged. Credicorp documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions.

Credicorp also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any excess gains or losses attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized as income in the consolidated financial statements.

As of December 31, 2006, Credicorp has only one derivative that qualifies for hedge purposes, which is an interest rate swap, classified as a cash flow hedge. See Note 20(d) to the Credicorp Financial Statements, which is an interest rate swap, classified as a cash flow hedge. The effective portion of changes in the fair value of this derivative is recognized in equity, and the gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

Embedded derivatives:

In 2006, Credicorp has acquired certificates indexed to its share price that will be settled in cash (see Note 11(c) to the Credicorp Consolidated Financial Statements). These instruments reduce the liability exposure for the stock appreciation rights granted to employees. These instruments have been accounted at their fair value and are presented in the caption "Other assets" of the consolidated balance sheets.

Foreign currency translation

Credicorp's principal operations and transactions are established and liquidated in U.S. Dollars, and, as a result, Credicorp considers the U.S. Dollar to be its functional and presentation currency. See Note 3(c) to the Credicorp Consolidated Financial Statements.

The financial statements of each of Credicorp's subsidiaries are prepared using the currency of the country in which such subsidiary operates. The financial statements are then translated into U.S. Dollars as follows:

- (i) Monetary assets and liabilities for each balance sheet presented are translated at the free market exchange rate at the date of that balance sheet.
- (ii) Non-monetary accounts for each balance sheet presented are translated at the free market exchange rate at the date of the transactions.
- (iii) Income and expenses, except for those related to non-monetary assets, which are translated at the free market exchange rate at the date of the transaction, are translated monthly at the average exchange rate.

All resulting translation differences are recognized in the consolidated income statement.

Income and expense recognition from banking activities

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial assets or liability and allocating the interest income or expense over the relevant period on an accrual basis. Interest rates are determined based on negotiations with clients.

Interest income is suspended when collection of loans become doubtful, such as when overdue by more than 90 days or, if earlier, upon the borrower's or securities' issuer's default, and such income is excluded from interest income until received. Uncollected income on such loans is reversed against income. When the management determines that the debtor's financial condition has improved, the recording of interest thereon is reestablished on an accrual basis.

Interest income includes coupons earned on fixed income investment and trading securities and the accrued discount and premium on financial instruments. Dividends are recognized as income when they are declared.

Commission income is recognized on an accrual basis when earned. All other revenues and expenses are recognized on an accrual basis as earned or incurred.

Recognition of income and expenses of insurance activities

The premiums related to life and other insurance policies, of both long and short duration, are recognized as income when they accrue. A reserve for unearned premiums is recorded for the unexpired portion of the premiums.

The claims reserves are constituted under different methodologies depending on the type of reserve, line of business, type of product and type of coverage.

In the case of life insurance products, the claims reserves are calculated based on an estimation of the mortality (for life insurance), survival (for life annuities, death and disability pension system insurance and complementary insurance for work risk), or incidence (for personal injury) adjusting to the interest established when the product was designed. The reserves are calculated at the present value of the probable cash flows for pension payments, using mortality tables for the policyholders, beneficiaries and disabled who are covered at the date of the consolidated balance sheet adjusted based on interest rates determined based on the performance of the corresponding portfolio of investments.

The reserves corresponding to the universal life insurance policies form part of the technical life insurance reserves. The additional benefits granted to the policyholders originating from this type of policy are shown in the footnote to the net premiums earned for life and health insurance contract (See Note 21 to the Credicorp Consolidated Financial Statements) which include the surplus and interest accrued during the period which are credited to the balance of the policyholder.

The insurance claims are recorded when reported. The IBNR are estimated and reflected as provisions (liabilities). The reserves for IBNR at December 31, 2006 and 2005 have been estimated using generally accepted actuarial methods, which take into consideration the statistical analysis of the recorded loss history, the use of projection methods and when appropriate, qualitative factors used to reflect the effect of the present conditions or trends that affect historical data. Management considers that the estimated reserve is sufficient to cover liabilities for IBNR occurred during 2006 and 2005.

To determine the reserves for life, property and casualty and health insurance, Credicorp carries out a continuous review of its overall position, its reserving techniques and its reinsurance. The provisions are reviewed periodically by qualified actuaries contracted by Credicorp. In those cases where, upon further consideration it is determined that additional reserve is necessary, a calculation based on the claims past experience using the chain-ladder methodology or a percentage of the related premium is carried out. The technical provisions recorded are subject to a liability adequacy test to determine its sufficiency based on the future cash flow projections of the contracts in force. Changes to estimated reserves are included in the results of operations for the period.

The costs for acquiring the policies (commissions) that are variable and that are primarily related to the acquisition and renewal of insurance contracts (universal life) are deferred and amortized during the period of the policy. The recoverability of these deferred acquisition costs is reviewed annually.

Based on periodic review of the client portfolio, the management determines the provision for bad debt related to premiums and quotas receivable.

Use of estimates

In presenting the financial statements, management also makes estimates and assumptions that include the amount of valuation allowances on deferred tax assets, the amount of insurance reserves, the selection of useful lives of certain assets and the determination of whether a specific asset or group of assets has been impaired. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates.

(2) Historical Discussion and Analysis

The following discussion is based upon information contained in the Credicorp Consolidated Financial Statements and should be read in conjunction therewith. The Credicorp Consolidated Financial Statements have been prepared in accordance with IFRS, which differ in certain respects from U.S. GAAP. See Note 29, as restated, to the Credicorp Consolidated Financial Statements, which provides a description of the significant differences between IFRS and U.S. GAAP as they relate to Credicorp, and a reconciliation to U.S. GAAP of Credicorp's net income and shareholders' equity. The discussion in this section regarding interest rates is based on nominal interest rates. For a comparison of nominal interest rates with real interest rates, see "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(i) Average Balance Sheets and Income from Interest-Earning Assets—Real Average Interest Rates."

The financial information and discussion and analysis presented below for 2004, 2005 and 2006 reflect the financial position and results of operations for 2004, 2005 and 2006 of Credicorp's subsidiaries. See "Item 3. Key Information—(A) Selected Financial Data."

At December 31, 2006, approximately 70.8% of Credicorp's deposits and 74.6% of its loans were denominated in foreign currencies, reflecting the historic lack of confidence in the Peruvian currency stemming from high inflation rates in prior years. With the reduction in the rate of inflation, Credicorp has begun to attract more Nuevo Sol-denominated deposits and to offer more Nuevo Sol-denominated loans. Nevertheless, Credicorp expects the majority of its deposits and loans to continue to be denominated in foreign currencies.

Results of Operations for the Three Years Ended December 31, 2006

The following table sets forth, for the years 2004, 2005 and 2006, the principal components of Credicorp's net income:

	Year ended December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Interest income	US\$542,842	US\$612,432	US\$782,002
Interest expense	(160,298)	(173,159)	(283,478)
Net interest income	US\$382,544	US\$439,273	US\$498,524
Provision for loan losses	(16,131)	6,356	4,243
Net interest income after Provision	US\$366,413	US\$445,629	US\$502,767
Noninterest income	243,879	265,985	338,894
Insurance premiums earned net of claims on insurance activities	38,347	43,455	64,739
Other expenses	(459,928)	(477,073)	(585,058)
Merger costs	(3,742)	—	(5,706)
Income before translation result and income tax	US\$184,969	US\$277,996	US\$315,636
Translation result (loss) gain	US\$2,040	US\$(9,597)	US\$15,216
Income tax	(45,497)	(73,546)	(83,587)
Net income	US\$141,512	US\$194,853	US\$247,265
Net income attributable to:			
Credicorp's shareholders	130,747	181,885	230,013
Minority interests	10,765	12,968	17,252
Net income	US\$141,512	US\$194,853	US\$247,265

Consolidated net income attributable to Credicorp's shareholders increased from US\$181.9 million in 2005 to US\$230.0 million in 2006. Credicorp's consolidated net income increased from 2005 to 2006 principally due to: (i) higher average volumes in interest-earning assets mainly as a consequence of the strong expansion in the BCP banking business with the robust loan growth and the restructuring of the portfolio; (ii) lower loan loss provisions; (iii) greater commissions for financial services and higher gains on foreign exchange transactions and sale of securities; and (iv) a gain on translation result in 2006 versus a loss in 2005.

On the other hand, operating expenses increased 22.6% in 2006 to US\$585.1 million, principally as a result of increased expense on salaries and benefits. The increase in personnel expenses during 2006 was principally due to increases in salaries and stock appreciation rights (see Note 19 to the Credicorp Consolidated Financial Statements). The merger between Prima AFP and Unión Vida in December 2006 was another contributor to the rise in expenses.

Net Interest Income

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

increase in the average nominal interest rate paid in foreign currency-denominated deposits indicates that there is still greater preference for dollar denominated deposits. See “Item 4. Information on the Company—(B) Business Overview—(8) Competition” and “—(12) Selected Statistical Information.”

Credicorp's average foreign currency-denominated deposits increased 16.7% to US\$5,820.1 million in 2006 from US\$4,989.4 million in 2005, which in turn increased 24.9% from US\$3,993.8 million in 2004. Credicorp's average Nuevo Sol-denominated deposits increased 21.0% in 2006 to US\$2,005.0 million from US\$1,656.9 million in 2005, which in turn increased 57.4% from US\$1,052.7 million in 2004. See "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information."

Net interest margin. Credicorp's net interest margin (net interest income divided by average interest-earning assets) decreased to 4.64% in 2006 compared to 4.90% in 2005 and 2004 as returns declined on interest-earning assets, mainly securities and Nuevo Sol-denominated loans, while funding costs remained relatively unchanged. See "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information."

Provision for Loan Losses

Credicorp classifies by risk category all of its loans and other credits. Credicorp establishes its loan loss reserves based on criteria established by IAS 39 (see "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(iii) Loan Portfolio—Classification of the Loan Portfolio"). Credicorp does not anticipate that the expansion of its loan portfolio or the consolidation of the activities of its subsidiaries will necessitate a change in its reserve policy.

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

	Year ended December 31,				
	2002	2003	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>				
Reserves for loan losses at the beginning of the year	US\$344,433	US\$424,031	US\$326,677	US\$271,873	US\$218,636
Provisions	99,596	66,421	16,131	(6,356)	(4,243)
Acquisitions and sales	122,841	—	—	(9,024)	—
Recoveries of write-offs	12,050	17,416	32,287	35,032	44,284
Write-offs	(150,102)	(185,688)	(105,267)	(71,405)	(49,859)
Monetary Correction and Other	(4,787)	4,497	2,045	(1,484)	1,768
Reserves for loan losses at the End of the year	US\$424,031	US\$326,677	US\$271,873	US\$218,636	US\$210,586

Provisions for loan losses, charged against income net of recoveries, decreased 33.3% in 2006 (US\$4.2 million). Total recoveries of write-offs reached US\$44.3 and US\$49.9 million, respectively, increasing 26.4% and decreasing 30.2% from 2005, respectively. Provision expense in 2006 included US\$2.5 million required by BCB (compared to US\$2.1 million in 2005). The lower provision expense in 2006 and 2005 was principally due to improved loan quality, particularly with respect to BCP's loan portfolio, higher recoveries of charged-off accounts (mainly recoveries of clients of the retail group, which are small amounts recoveries) and a substantial improvement in the Peruvian economy. Balance of recoveries of previously charged-off accounts in 2006 amounted to US\$44.3 million (compared to US\$35.0 million in 2005). The middle market and small business sectors continued to require a majority of the provisions made during 2006 and 2005. Provisions net of recoveries for middle market and small businesses were US\$16.8 million in 2006 and US\$13.5 million in 2005.

Total reserves, which amounted to US\$210.6 million in 2006, include the allowance for direct and indirect credits for approximately US\$190.3 million and US\$20.3 million, respectively.

The effects of the increase in provisions were partly offset by write-offs of loans amounting to US\$49.9 million in 2006, a 30.2% decrease from US\$71.4 million in 2005, which in turn decreased 32.2% from US\$105.3 million in 2004. The loans charged off are primarily attributable to the removal of loans that were fully provided for and considered unrecoverable (see “Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(iii) Loan Portfolio—Loan Loss Reserves”).

Noninterest income

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

	2004	Year ended December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Fees and commissions from banking services	US\$201,474	US\$206,163	US\$243,778
Net gains from sales of securities	10,135	8,965	27,281
Net gains on foreign exchange transactions	24,165	29,286	41,638
Other income	8,105	21,571	26,197
Total non-interest income	US\$243,879	US\$265,985	US\$338,894

Credicorp’s noninterest income, without including net premiums earned, increased 27.4% to US\$338.9 million in 2006 from US\$266.0 million in 2005, which in turn increased 9.1% from US\$243.9 million in 2004. Revenue increase in 2006 was principally due to an increase in fees and commissions from banking services, net gains from sales of securities and net gains on foreign exchange transactions.

Fees and commissions income from banking services increased 18.2% to US\$243.8 million in 2006 from US\$206.2 million in 2005, following a 2.3% increase in 2005 from US\$201.5 million in 2004. The increase in fees and commissions income from banking services in 2006 was principally due to growth in account maintenance, credit card and debit card fees, commissions for money orders and transfers and current and saving accounts. In 2005, growth in fees and commissions income was principally due to growth in credit card fees, fund transfer fees and collections.

Net gains from sales of securities increased 204.3% to US\$27.3 million in 2006 from US\$9.0 million in 2005, following a decrease in 2005 from US\$10.1 million in 2004. The increase in 2006 was principally due to gains from market value fluctuation on sales of investments due to high returns on the Lima Stock Exchange.

Net gains on foreign exchange transactions increased 42.2% to US\$41.6 million in 2006 from US\$29.3 million in 2005, which in turn increased 21.2% from US\$24.2 million in 2004. Net gains from foreign exchange transactions are not attributable to proprietary trading on the part of Credicorp. Higher gains in 2006 and 2005 were principally due to an increase in trading volume and higher spreads between buy and sell transactions.

Other income increased 21.4% to US\$26.2 million in 2006 from US\$21.6 million in 2005, after increasing 166.1% from US\$8.1 million in 2004. Other income principally consists of sales of assets seized, recoveries of other accounts receivable and other assets and other income. The increase in other income in 2006 was mainly due to revenues from the sale of assets seized (a gain of US\$9.2 million in 2006 compared to a gain of US\$6.2 million in 2005), net of recoveries of other accounts receivable and other assets (US\$1.8 million in 2006 compared to US\$4.5 million in 2005). Other income returned to a more regular level in 2004, mainly due to losses on the sale of foreclosed assets and lower other income. See Note 23 to Credicorp’s Consolidated Financial Statements.

Insurance premiums and claims on insurance activities

The following table reflects the premiums earned and claims incurred in connection with Credicorp's insurance activities:

	Year ended December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Net premiums earned	US\$192,672	US\$218,955	US\$251,261
Net claims incurred	(34,791)	(42,569)	(46,587)
Increase in costs for future benefits for life and health policies	(119,534)	(132,931)	(139,935)
Total net premiums and claims	US\$38,347	US\$43,455	US\$64,739

Net premiums and claims show significant increases in 2006 compared to 2005 and in turn compared to 2004. See "Item 4. Information on the Company—(B) Business Overview—(6) Pacífico Peruano Suiza." Net premiums increased 14.8% to US\$251.3 million in 2006 from US\$219.0 million in 2005.

Premiums for general insurance lines, which accounted for 48.0% of total premiums, increased 3.2% in 2006 after a 7.8% increase in 2005.

Gross premiums (including premium transfer and reserve adjustments) increased 3.8% to US\$372.6 million in 2006 from US\$359.0 million in 2005 after increasing 4.2% from 2004. The increase in 2006 was principally due to a 6.1% increase in the life and pension insurance lines which reached US\$117.2 of gross premiums in 2006 compared to US\$110.1 million in 2005. On the other hand, the increase in 2005 was due to a 7.8% increase in the general insurance lines. Security and property insurance (48.0% of total premiums) increased 3.2% in 2006 after increasing 7.8% in 2005. Furthermore, fire insurance (27.7% of total premiums) decreased 11.9% in 2006 after increasing 1.8% in 2005.

Life insurance (31.0% of total premiums) increased 6.1% in 2006 after increasing 1.8% in 2005. The higher increase in 2006 was principally due to an increase in the volume in all life insurance branches except life annuities, which decreased 24.0% in 2006 due to conservative investment policies. Provisional insurance increased 28% in 2006, after an increase of 30% in 2005 and a decrease of 7% in 2004.

During 2006, claims on insurance activities increased by 6.3% to US\$186.5 million from US\$175.5 million in 2005, mainly due to an increase in the total gross premiums. In 2005, net claims increased 13.7% from US\$154.3 million in 2004 mainly due to an increase in claims in the marine hull business. However, the net loss ratio, defined as net claims paid as a percentage of net premiums earned, decreased to 72.0% in 2006 from 78.9% in 2005, and was similar to that of 2004 (72.4%).

Other Expenses

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

	Year ended December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Salaries and employee benefits	US\$202,729	US\$236,347	US\$303,332
General and administrative	153,096	138,294	172,304
Depreciation and amortization	46,595	38,728	50,317
Provision for assets seized	14,639	16,959	6,387
Other	42,869	46,745	52,718
Merger costs	3,742	—	5,706
Total other expenses and merger costs	US\$463,670	US\$477,073	US\$590,764

Personnel expenses increased 28.3% in 2006 compared to 2005, after a 16.6% increase in 2005, compared to 2004. The number of Credicorp personnel increased to 11,532 in 2006 from 9,544 in 2005, which in turn increased from 9,558 in 2004. Considering only BCP, the number of personnel increased to 8,243 in 2006 from 7,568 in 2005, which in turn decreased from 7,694 in 2004. The increase in personnel expenses during 2006 was principally due to increases in salaries and stock appreciation rights (see Note 19 to the Credicorp Consolidated Financial Statements). Certain salaries are based on local currency, and therefore a revaluation of Nuevo Soles results in a higher amount when translated into U.S. Dollars.

Credicorp's general and administrative expenses (which include taxes other than income taxes) increased 24.6% in 2006 compared to 2005, which in turn decreased 9.7% compared to 2004. Lower expenses in 2005 resulted from decreases in systems, maintenance and institutional expenses, while higher expenses in 2006 were principally the result of increases in marketing expenses for ad campaigns and customer loyalty-building programs, system expenses, such as maintenance, licenses and projects, and transportation expenses. Additionally, after the merger with Unión Vida, Prima AFP incurred higher expenses in respect of its sales force. It is worth mentioning that Banco Tequendama was not consolidated into Credicorp's financial statements as of March 2005.

Provision for assets seized decreased 62.3% to US\$6.4 million in 2006 from US\$17.0 million in 2005. This decrease was due to higher rotation in seizing and sales of assets.

Other expenses increased 12.8% to US\$52.7 million in 2006, after an increase of 9.0% in 2005, compared to 2004. Other expenses increased during 2006 principally due to commissions in insurance (US\$25.6 million in 2006 compared to US\$19.3 million in 2005) and sundry technical insurance expense (US\$10.9 million in 2006 compared to US\$8.2 million in 2005). In 2006, Credicorp recorded US\$5.7 million as merger costs following the acquisition of AFP Unión Vida by Creditcorp Ltd.'s subsidiary Prima AFP.

Translation Result

The translation result reflects exposure to revaluation of net monetary positions in Nuevo Soles. Credicorp recognized a US\$15.2 million translation gain in 2006, a US\$9.6 million translation loss in 2005 and a US\$2.0 million translation loss in 2004. In 2006 translation gain was mainly due to gains recorded from exposure to the Nuevo Sol which strengthened against U.S. Dollar. In 2005, translation loss was the result of Credicorp's net asset positions in Nuevo Soles weakening against the U.S. Dollar.

Income Taxes

Credicorp is not subject to income taxes or taxes on capital gains, capital transfers or equity or estates duty under Bermuda law; however, certain of its subsidiaries are subject to income tax and taxes on dividends paid to Credicorp, depending on the legislation applicable to the jurisdictions in which they generate income.

Credicorp's Peruvian subsidiaries, including BCP, are subject to corporate taxation on income under the Peruvian tax law. The statutory income tax rate payable in Peru in 2003 was 27% of taxable income, which includes the result of exposure to inflation. Since 2004, the statutory income tax rate payable in Peru is 30% of taxable profits. An additional 4.1% withholding tax is applied on dividends, which Credicorp registers as income tax based on the liquid amount received from BCP and PPS.

For fiscal years 1998 and 1999, companies were subject to an extraordinary tax on net assets of 0.5%, and 0.2%, respectively. In the case of banks, such asset taxes were calculated based on 50% of assets (net of depreciation, reserve for loan losses and common stock investments in Peruvian corporations) as of December 31 of the relevant fiscal year. Amounts required to be held by BCP in the Central Bank as reserve deposits could be deducted from the asset calculation for determination of the alternative minimum tax and the extraordinary tax. Starting in 2003, and applying rates on substantially the same net assets, a procedure is applied to make advance payments of the income tax liability corresponding to the ongoing fiscal year. Both the asset based taxes and the advance payment procedure are payable even if no tax liability results in the tax year in question. The advanced payment procedure was repealed in December 2004 and replaced by a temporary net assets tax of 0.6%, with substantially the same effect.

Peruvian tax legislation is applicable to legal entities established in Peru, and on an individual (not consolidated) basis. Credicorp's non-Peruvian subsidiaries are not subject to taxation in Peru and their assets are not included in the calculation of the Peruvian extraordinary tax on net assets.

ASHC is not subject to taxation in Panama since its operations are undertaken "offshore." The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance or gift tax. Prior to 1995, there was no corporate income tax in Bolivia. Although Bolivia adopted an income tax regime starting in 1995, due to BCB's ability to offset taxes paid other than income taxes from any income tax liability, no Bolivian income taxes have been payable.

Income tax expense by Credicorp increased to US\$83.6 million in 2006 from US\$73.5 million in 2005, which in turn increased from US\$45.5 million in 2004. Income tax growth in these periods reflects increases in Credicorp's taxable income. Since 1994, Credicorp has paid the Peruvian income tax at the statutory rate. The effective tax rates in 2004, 2005 and 2006 were 24.32%, 27.40%, and 25.26%, respectively.

(3) Financial Condition

Total Assets

As of December 31, 2006, Credicorp had total assets of US\$12.9 billion, increasing 16.7% compared to total assets of US\$11.0 billion as of December 31, 2005, with cash and due from banks increasing 2.7%, investments increasing 21.7% and loans, net of provisions, increasing 19.1%. From December 31, 2005 through December 31, 2006, the Peruvian financial system grew 15.6% in terms of deposits and 23.9% in terms of total loans, comparing balances translated to U.S. Dollars, while GDP grew 8.0%. The ratio of financial intermediation, as measured by the sum of currency in circulation, bank deposits and other bank obligations to the public, divided by GDP, was 5.2% in 1990 and, although this ratio reached approximately 25.5% in 2001 and 2002, it declined to 23.1% in 2004, and in turn increased to 23.5% in 2005. In 2006, the ratio of financial intermediation decreased slightly to 22.6%. Although the ratio of financial intermediation is still below the 26.7% peak in the early 1970s, Credicorp expects the rate of growth

in total assets to remain at moderate levels.

101

Improved finances among companies and individuals supported by a favorable economic environment and sustained increases in loan placements resulted in significant improvements in loan portfolio quality in recent years further accelerating the decrease in delinquency rates, which decreased from 3.7% in 2004 to 1.9% in 2005 and further to 1.3% in 2006. BCP's coverage ratios also improved significantly in recent years from 159.8% in 2004 to 207.7% in 2005 and further to 249.5% in 2006, despite lower increases in provisions due to improving loan portfolio quality.

As of December 31, 2006, Credicorp's total loans were US\$5,927.1 million, which represented 46.0% of total assets, and net of reserves for loan losses, loans were US\$5,736.8 million. As of December 31, 2005, Credicorp's total loans were US\$5,014.3 million, which represented 45.4% of total assets, and net of reserves for loan losses, loans were US\$4,816.7 million. Credicorp's total loans increased from December 31, 2005 to December 31, 2006 by 18.2%, and net of loan loss reserves by 19.1% in the same period.

Credicorp's total deposits with the Central Bank decreased from US\$1,599.2 million as of December 31, 2005 to US\$1,405.9 million as of December 31, 2006. Credicorp's securities holdings (which include marketable securities and investments) increased 21.7% to US\$3,495.8 million at December 31, 2006 from US\$2,871.5 million at December 31, 2005. The securities portfolio increase in 2006 was principally due to increased investments in Central Bank certificates, corporate, leasing subordinated bonds and in treasury bonds of various governments.

Total Liabilities

As of December 31, 2006, Credicorp had total liabilities of US\$11.3 billion, a 16.5% increase from total liabilities of US\$9.7 billion as of December 31, 2005. As of December 31, 2006, Credicorp had total deposits of US\$8,839.0 million, a 24.6% increase from total deposits of US\$7,093.4 million at December 31, 2005. Credicorp believes that its extensive branch network and reputation in the Peruvian market have allowed it to compete effectively for new deposits and to attract stable, low cost savings deposits.

Credicorp's funding strategy has been structured around maintaining a diversified deposit base. During 2006, demand deposits grew by 55.0% and time deposits by 30.8%, while saving deposits decreased by 7.3%. As of December 31, 2006, Credicorp, through BCP unconsolidated, had 42.1% of total savings deposits in the Peruvian banking system, 43.6% of demand deposits and 36.2% of total deposits, the highest of any Peruvian bank in all three categories. An important characteristic of Credicorp's deposit base is that, as of December 31, 2006, it included 57.2% of the entire Peruvian banking system's CTS deposits, decreasing from 57.9% as of December 31, 2005. Credicorp believes that it traditionally has attracted a high percentage of the savings and CTS deposit market because of its reputation as a sound institution, its extensive branch network and the quality of its service. Credicorp's core deposits (time, savings, CTS and demand deposits) accounted for 96.7% of its total deposits as of December 31, 2006.

(4) Reconciliation of Differences Between IFRS and U.S. GAAP

The Credicorp Consolidated Financial Statements have been prepared in accordance with IFRS, which differ in certain aspects respects from U.S. GAAP, as presented in Note 29, as restated, to the Consolidated Financial Statements. The principal differences between IFRS and U.S. GAAP, insofar as they relate to Credicorp, is that under IFRS changes in amortized cost of debt securities available-for-sale resulting from movements in foreign currency exchange rates are reflected in the income statement. Under U.S. GAAP (EITF 96-15, as amended by SFAS 133), changes in the amortized cost of instruments available-for-sale due to changes in foreign currency exchange rates are considered part of the changes in fair value and, as a result, recorded in "Other comprehensive income" in shareholder's equity and transferred to income upon the maturity or sale of the instrument.

Another difference is that under IFRS, income tax is recorded in accordance with IAS12, "Income Taxes." This provision requires the recognition of deferred taxes on income resulting from the differences in measurement of local currency converted into the functional currency, due to changes in exchange rates. Meanwhile, under U.S. GAAP, Credicorp follows guidelines established in SFAS 109 "Accounting for income taxes." These guidelines do not permit recognition of deferred taxes on differences in assets and liabilities remeasured upon conversion from local currency into the functional currency as a result from changes in exchange rates. In prior years, the differences between IFRS and U.S. GAAP calculations have been immaterial and hence no reconciliation item has been reported for 2004 and 2005. In 2006, however, the amount of these differences amounted to US\$5.1 million, as of December 31, 2006 (the amount from previous years amounted to US\$1.4 million). This item is presented to reconcile the net income and the shareholder's equity, see Note 29 (h) and (i) to the Credicorp Consolidated Financial Statements.

Another difference is the disclosure of minority interest in the balance sheet. Under IFRS, minority interest is disclosed as part of net equity while under U.S. GAAP it is disclosed between liabilities and shareholders' equity. In the profit and loss statement, annual profit is disclosed in profit attributable to equity holders of the parent (US\$230,013, US\$181,885 and US\$130,747 as of December 31, 2006, 2005 and 2004, respectively) and profit attributable to minority interests (US\$17,252, US\$12,968 and US\$10,765 as of December 31, 2006, 2005 and 2004, respectively).

(B) Liquidity and Capital Resources*Regulatory Capital and Capital Adequacy Ratios*

	As of December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in thousands, except percentages)</i>		
Capital stock	539,498	539,498	539,498
Legal and other reserves	269,527	269,527	479,902
Capital stock, reserves and retained earnings of minority interest	46,767	61,251	37,281
Accepted Provisions for loan losses	43,946	49,169	58,562
Subordinated debt	43,891	31,276	140,086
Total	943,629	950,721	1,255,329
Less: investment in multilateral organizations, banks and insurance companies	(32,360)	(35,697)	(30,075)
Total Regulatory Capital ⁽¹⁾	911,269	915,024	1,225,254
Financial Entities Capital Ratio			
Regulatory Capital attributable to Financial Entities ⁽¹⁾	776,202	761,342	871,377
Risk-weighted Assets From Financial Entities ⁽³⁾	5,529,440	5,810,046	7,273,023
Capital Ratio for Financial Entities	14.04%	13.10%	11.98%
Minimum Regulatory Capital Required (MRCR)⁽²⁾			
MRCR for Financial Entities ⁽³⁾	499,512	559,074	690,045
MRCR for Insurance Entities ⁽³⁾	42,110	88,019	100,447
MRCR for Other Entities ⁽³⁾	31,536	101,348	60,437
Total Minimum Regulatory Capital Required	573,158	748,441	850,959
Regulatory capital as percentage of Minimum Regulatory Capital Required	158.99%	122.26%	143.99%

(1) Total Regulatory Capital and Financial Entities Regulatory Capital is prepared under the guidelines of the BIS I Accord (by the Basel Committee) as adopted by the SBS.

(2) The Minimum Regulatory Capital Required (MRCR) is prepared under the guidelines of the BIS I Accord (by the Basel Committee) as adopted by the SBS, and must not exceed from the Total Regulatory Capital calculated. The Consolidated MRCR is calculated by the addition of the MRCR of each one of the entities.

(3) Peruvian Financial entities (BCP, Credileasing and Solución) has a MRCR of 9.09% of the Risk-Weighted Assets (RWA). For ASB (Panama), the MRCR is 8% of the RWA. For ASHC (Cayman Islands), the MRCR is 15% of the RWA. For BCB (Bolivia), the MRCR is 10% of the RWA. For the Insurance companies, MRCR is calculated on the basis of the Solvency Margin, the guarantee funds and the credit risk. Other entities, with no MRCR must be considered by the sum of the capital, reserves and retained earnings.

Liquidity Risk

Credicorp manages its assets and liabilities to ensure that it has sufficient liquidity to meet its present and future financial obligations and that it is able to take advantage of appropriate business opportunities as they arise. Liquidity risk represents the potential for loss as a result of limitations on Credicorp's ability to adjust future cash flows to meet

the needs of depositors and borrowers and to fund operations on a timely and cost-effective basis. Financial obligations arise from withdrawals of deposits, repayment on maturity of purchased funds, extensions of loans or other forms of credit, and working capital needs.

The growth of Credicorp's deposit base over the past years has enabled Credicorp to increase significantly its lending activity. BCP is subject to SBS Resolution No. 622-98, enacted in July 1998, which made its Market Risk Area responsible for liquidity management, and by which minimum liquidity ratios were established. The ratio of liquid assets as a percentage of short-term liabilities, as strictly defined by the SBS, must exceed 8% for Nuevos Soles-based transactions, and 20% for foreign exchange-based transactions. BCP's daily average ratios during the month of December 2006 were 56.91% and 51.99% for Nuevos Soles and foreign exchange-based transactions, respectively (45.2% and 57.8%, respectively, in December 2005), demonstrating Credicorp's continuing excess liquidity. Credicorp has never defaulted on any of its debt or been forced to reschedule any of its obligations. Even during the early 1980s, when the government of Peru and many Peruvian companies and banks were forced to restructure their debt as a result of the Latin American debt crisis and government restrictions, BCP and PPS complied with all of their payment obligations.

The capability of replacing interest bearing deposits at their maturity is a key factor in determining liquidity requirements, as well as the exposure to interest and exchange rate risks. Credicorp's principal source of funding is customer deposits with BCP's Retail Banking Group and ASHC's Private Banking Group, and premiums and amounts earned on invested assets at PPS. Credicorp believes that funds from its deposit-taking operations generally will continue to meet Credicorp's liquidity needs for the foreseeable future.

BCP's Retail Banking Group has developed a diversified and stable deposit base and the Private Banking Group has developed a stable deposit base that, in each case, provides Credicorp with a low-cost source of funding. This deposit base has traditionally been one of Credicorp's greatest strengths. The deposit gathering strategy has focused on products considered as BCP's core deposits: demand deposits, savings, time deposits and CTS deposits. Other sources of funds and liquidity, mostly short- and long-term borrowings from correspondent banks and other financial institutions, issued bonds and subordinated debt, are of a considerably lower significance compared to Credicorp's core deposits. See Notes 13 and 14 to Credicorp Consolidated Financial Statements.

The following table presents Credicorp's core deposits, other deposits and other sources of funds:

	2004	At December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Core Deposits:			
Demand deposits	US\$1,750,277	US\$1,801,314	US\$2,792,433
Savings deposits	1,583,502	2,105,364	1,951,978
Severance indemnity deposits	530,683	654,791	775,027
Total core deposits	US\$3,864,462	US\$4,561,469	US\$5,519,438
Other Deposits:			
Time deposits	2,352,200	2,459,907	3,218,157
Bank certificates	54,310	46,378	61,539
Total deposits	US\$6,270,972	US\$7,067,754	US\$8,799,134
Due to banks and correspondents	US\$431,052	US\$1,303,371	US\$941,601
Issued bonds	US\$423,977	429,224	512,572
Total sources of liquid funds	US\$7,126,001	US\$8,800,349	US\$10,253,307
Core deposits as a percent of total deposits	61.6%	64.5%	62.7%
Core deposits as a percent of total sources of liquid funds	54.2%	51.8%	53.8%

BCP is required to keep deposits with the Central Bank, as legal reserves, determined as a percentage of the deposits and other liabilities owed to its clients. The requirement is currently approximately 6.0% of Nuevos Soles-denominated deposits and approximately 32.7% of U.S. Dollar-denominated deposits. Legal reserves are meant to ensure the availability of liquid funds to cover withdrawals of deposits. See "Item 4. Information on the Company—(B) Business Overview—(11) Supervision and Regulation—(ii) BCP—Central Bank Reserve Requirements." Additionally, Credicorp has significant investments of excess liquid funds in short-term Central Bank certificates of deposits.

The following table presents Credicorp's deposits at the Central Bank, and its investments in Central Bank certificates:

	2004	At December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Funds at Central Bank			
Deposits	US\$1,100,450	US\$1,599,153	US\$1,405,853
Certificates of deposits	US\$682,418	US\$554,530	US\$1,110,002
BCRP-Repo Transactions	—	US\$591,285	167,611
Total funds at Central Bank	US\$1,782,868	US\$2,744,968	US\$2,683,466
Total funds at Central Bank of Perú as a percent of total deposits	28.4%	38.8%	30.5%

BCP at times has accessed Peru's short-term interbank deposit market, although it is generally a lender in this market. The Central Bank's discount window, which makes short-term loans to banks at premium rates, is also available as a short-term funding source, but has been used infrequently by BCP. ASHC also has the ability to borrow from correspondent banks on an overnight basis at rates tied to the Federal Funds rate as well as funding lines from international financial institutions.

106

At December 31, 2006, Credicorp had uncommitted credit lines with various banks, including long-term facilities that are mainly used for project financing, of which no significant amount was drawn down. The long-term facilities include funding from COFIDE, Banco Interamericano de Desarrollo (Inter-American Development Bank or IDB) and other international lenders. The transactions relating to these credit lines include import and export transactions and average annual rates (including Libor) vary from 5.65% to 7.90%. In 1998 and 2001, a total of approximately US\$200 million of funding was received through the securitization of certain credit card receivables and diversified payment rights, with BCP as the originator of such assets. As of December 31, 2005, the funding received in 1998 was paid off and the funding received in 2001 was pre-paid with the proceeds of new securitization of diversified payment rights, which amounted to US\$280.0 million. See Note 14(b) to the Credicorp Consolidated Financial Statements. As of December 31, 2006, borrowed funds amounted to US\$941.6 million as compared to US\$1,303.4 million in 2005 and US\$429.4 million in 2004.

In addition, mortgage loans may be funded by mortgage funding notes and, since 2001, mortgage bonds that are sold by BCP in the market. Mortgage funding notes are instruments sold by BCP with payment terms that are matched to the related mortgage loans, thereby reducing BCP's exposure to interest rate fluctuations and inflation. Mortgage bonds are U.S. Dollar-denominated and have been issued with ten-year terms, with collateral established by real estate acquired through funded home mortgage loans. As of December 31, 2006, BCP had US\$23.6 million of outstanding mortgage bonds and notes (US\$27.6 million in 2005 and US\$28.4 million in 2004). A source of funds specific to leasing operations are leasing bonds issued by lease financing companies, the terms of which are specified in the Peruvian leasing regulations. As of December 31, 2006, BCP had US\$178.0 million of outstanding leasing bonds (US\$219.6 million in 2005 and US\$220.5 million in 2004). These bonds have maturities extending from three to five years and bear the same interest as 360-day time deposits. See Note 16 to the Credicorp Consolidated Financial Statements for a detailed breakdown of Credicorp's issued bonds.

The following table presents Credicorp's issued bonds:

	Years ended December 31,		
	2004	2005	2006
	<i>(U.S. Dollars in millions)</i>		
Issued bonds			
Corporate Bonds	US\$35.2	US\$35.0	US\$47.2
Leasing Bonds	14.0	40.0	0.0
Subordinated debt	0.0	0.0	120.0
Total issuance	US\$49.3	US\$75.0	US\$167.2

In August, 2006, the Board or Directors of BCP approved the issuance on local and international markets of subordinated debt of up to US\$175 million, with a view to meeting the requirement of the regulatory capital of BCP in Peru. The issuance was partly realized in 2006 and will continue in 2007.

Thus, in November 2006, BCP, through its Panama branch, issued on the international market subordinated negotiable certificates notes due 2021 in the aggregate amount of US\$120 million. These Notes accrue a fixed annual interest rate of 6.95% for the first 10 years (until November 2016), with interest payments every six months. After the first 10 years, the interest rate will change to a variable interest rate, established as Libor plus 2.79%, with quarterly interest payments. At the end of the first 10 years, the Bank can redeem 100% of the debt without penalty. This subordinated debt certificates include certain financial and operating covenants. In Credicorp management's opinion, BCP is not in violation of any of these covenants as of the date of the consolidated balance sheet date.

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

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

(C) Research and Development, Patents and Licenses, Etc.

Not applicable.

(D) Trend Information

Credicorp expects that 2007 will continue the positive trend in light of the trust in the current government's economic and monetary policies, the strengthening domestic demand and the positive international environment. In particular, Credicorp expects that financial income will increase, mainly as a result of prioritizing retail operations with individuals and small companies. In addition, credit risk is expected to remain low and provision expense from loan losses is expected to remain low due to continued improvement of portfolio quality. See "Item 4. Information on the Company—(B) Business Overview—(1) Introduction - Review of 2006" and "—(2) Strategy."

In Bolivia, Credicorp expects that BCB will continue to increase its profitability as a result of increased deposits and loans and the expansion into the personal banking niche. The economic policies of the new Bolivian government, however, may impair business conditions in the country and negatively affect BCB's financial results.

Credicorp expects that in 2007, ASHC will maintain its low-risk investment strategy. Credicorp expects continued growth of the assets under management.

In its insurance business, Credicorp expects to complete the restructuring started in 2006. In addition, new mass products are expected to be launched in 2007.

Prima AFP is expected to continue to grow in terms of customers and affiliations. In 2006, such growth was reflected in 115,000 new customers from transfers and 23,000 customers for affiliations due to the merger with AFP Unión.

(E) Off-Balance Sheet Arrangements

Credicorp has various contractual obligations that are recorded as liabilities in its financial statements. Other contractual arrangements, such as contingent credits contracts, are not recognized as liabilities in Credicorp's financial statements but are required to be registered in off-balance sheet accounts. Credicorp enters into these off-balance sheet arrangements in the ordinary course of business in order to take advantage of above average interest margins, in the case of guarantees and letters of credit, and the notional amount of short-term market movements in the equity and bond markets and in currency and interest rates, in the case of derivatives and swaps.

The following table reflects Credicorp's off-balance sheet arrangements as of December 31, 2004, 2005 and 2006:

	2004	At December 31, 2005	2006
	<i>(U.S. Dollars in thousands)</i>		
Contingent Credits			
Guarantees and stand by letters	US\$655,313	US\$982,044	US\$1,204,500
Import and export letters of credit	233,806	238,902	250,876
Sub Total	889,119	1,220,946	1,455,376
Responsibilities under credit line agreements	569,332	531,816	814,746
Financial derivative contracts, net	211,520	310,944	(30,970)
Swap contracts	212,417	572,160	543,041
Total	US\$1,882,388	US\$2,635,866	US\$2,782,193

In the normal course of its business, Credicorp's banking subsidiaries are party to transactions with off-balance sheet risk. These transactions expose Credicorp's banking subsidiaries to credit risk in addition to the amounts recognized in the consolidated balance sheets. Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract. Credicorp is under no commitment to extend credit. Credicorp applies the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments, including the requirement to obtain collateral to support off-balance sheet financial instruments (see Note 7(a) to the Credicorp Consolidated Financial Statement) when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, securities or other assets.

Due to the fact that many of the contingent transactions are expected to expire without any payment being required from Credicorp, the total committed amounts do not necessarily represent future cash requirements.

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

As of December 31, 2006 and 2005, Credicorp had foreign currency forward derivatives. Foreign currency forwards are commitments to buy or sell currency at a future date at a contracted price. Risk arises from the possibility that the counter-party to the transaction does not perform as agreed and the change in the prices of the underlying currencies. As of December 31, 2006, Credicorp has a minor position on options for exchange rates totaling US\$8.7 million. As of December 31, 2006 and 2005, forward foreign currency purchase and sale agreements referred to above included nominal amounts of approximately US\$1,153.2 million and US\$998.7 million, respectively, which have maturities of less than a year. These agreements are executed to satisfy client requirements and are recorded by Credicorp in the financial statements at fair market value. The forward contracts net position as of December 31, 2006 and 2005 was an overbuy of approximately US\$31.0 million and an oversell of approximately US\$310.9 million, respectively.

Interest rate swaps are derivatives contracts, where counter parties exchange variable interest rates for fixed interest rates, in the terms and conditions established at the contract inception. The risk arises each time the projected level of the variable rate during the term of the contract is higher than the swap rate, as well as from non-compliance with

contractual terms by one of the parties. As of December 31, 2006, the notional amount of outstanding interest rate swap contracts was approximately US\$543.0 million (approximately US\$572.2 million as of December 31, 2005). These contracts are recorded by Credicorp at fair market value, recording both realized and unrealized gains and losses in the consolidated income statements.

109

As of December 31, 2006, Credicorp held one interest rate swap contract for a notional amount of US\$196.0 million designated as a cash flow hedge, because it reduces the exposure to the variable interest rate risk of a portion of the loan transaction entered into by Credicorp in November 2005 (See Note 14(b) to the Credicorp Consolidated Financial Statements). In accordance with the hedge operation, which matures in November 2012, Credicorp pays a fixed rate of 4.57% and receives a variable rate equal to the monthly Libor interest rate over the notional amount and the settlements are made on a monthly basis. The loan and the interest rate swap have the same critical terms.

The fair value of the asset and liability forward contracts and swaps as of December 31, 2006 amounted to approximately US\$19.1 million and US\$7.8 million, respectively (approximately US\$8.8 million and US\$8.0 million as of December 31, 2005), and are included under the caption “Other assets and other liabilities” of the consolidated balance sheet, respectively, see Note 11 to Credicorp Consolidated Financial Statements. As of December 31, 2006 and 2005, the fair value of the cash flow hedge amounted to US\$2.9 and US\$1.6 million, respectively, and it is included in the net equity.

The responsibilities under credit line agreements do not correspond to commitment to grant credit and include credit lines and other consumer loans that are cancelable upon notification to the consumer.

(F) Tabular Disclosure of Contractual Obligations

Credicorp enters into various contractual obligations that may require future cash payments. The following table summarizes Credicorp’s contractual obligations by remaining maturity as of December 31, 2006. See “Item 4. Information on the Company—(B) Business Overview—(1) Introduction - Review of 2006.”

	Total at December 31, 2006	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
		<i>(U.S. Dollars in thousands)</i>			
Borrowed funds	US\$717,557	US\$343,101	US\$65,061	US\$166,817	US\$142,578
Promotional credit lines	177,900	22,071	19,613	22,001	114,215
Interbank funds	41,077	41,077	—	—	—
Time deposits	3,218,157	3,019,532	163,283	29,226	6,116
Operating lease obligations	12,243	2,590	2,957	1,373	5,323
Total.	US\$4,166,934	US\$3,428,371	US\$250,914	US\$219,417	US\$268,232

The balance of the “Borrowed funds” caption in the table above corresponds to “borrowed funds” and “International funds and others”:

· In November 2005 BCP entered into a loan transaction for US\$230.0 million, related to Series 2005-A Floating Rate Certificates due 2012, and US\$50.0 million related to Series 2005-B Floating Rate Certificates due 2009. The loan is secured by the collection of BCP’s future inflows from electronic messages sent through the Society for Worldwide Interbank Financial Telecommunications network and utilized within the network to instruct the corresponding bank to make payments to beneficiaries that are not financial institutions. In this transaction, Wilmington Trust Company acted as trustee under the trust agreement and The Bank of New York acted as indenture trustee and administrator of the contract. The certificates bear a variable interest rate of one month Libor plus 0.21% for the 2005-A Series and one month Libor plus 0.60% for the Series 2005-B. As of December 31, 2006 and 2005, the balance of this obligation amounted to US\$280.0 million. A portion (70%), of the loan, subject to variable interest rate risk, has been hedged through an interest rate swap hedge operation for a notional amount of US\$196.0 million (see Note 20(d) to the Credicorp Consolidated Financial Statements).

In March 2006, BCP entered into a loan transaction for US\$100.0 million, related to Series 2006-A Floating Rate Certificates due 2016. Like the November 2005 loan, the loan is secured by the future inflows from electronic messages sent through the Society for Worldwide Interbank Financial Telecommunications network instruct the corresponding bank to make payments to beneficiaries that are not financial institutions. Wilmington Trust Company acted as Trustee under the trust agreement and The Bank of New York acted as indenture trustee and administrator of the contract. The certificates bear a variable interest rate of one month Libor plus 0.29%, as of December 31, 2006, and the balance of this obligation amounts to US\$90.6 million.

For the US\$100.0 million loan related to the Series 2006-A and the US\$230.0 million related to the Series 2005-A, BCP has signed an insurance policy with AMBAC Assurance Corporation which guarantees the timely payment of scheduled principal and certain interest monthly payments through November 2016 and November 2012, respectively. The insurance policy cost is equivalent to an annual fixed interest rate of 0.80% and 0.75% of the principal that is recorded as part of interest costs. In management's opinion, as of the date of the consolidated balance sheet Credicorp is not in violation of the covenants included in these loan agreements.

The "international funds and others" received by Credicorp are loans used mainly for financing foreign trade operations and working capital. As of December 31, 2006, these loans have maturities between January 2007 and May 2007. The interest rates range between 3.73% and 5.76%. As of December 31, 2006, the balance of these obligations is US\$346.9 million (See Note 14 (a) to the Credicorp Consolidated Financial Statements).

The promotional credit lines represent loans granted to BCP by Corporación Financiera de Desarrollo (COFIDE) and Banco Interamericano de Desarrollo (Inter-American Development Bank or IDB), to promote the development of Peru, have maturities between January 2007 and December 2021 and their interest rates range between 5.65 and 7.90%. These credit lines are secured by a loan portfolio totaling US\$177.9 million and US\$212.1 million as of December 31, 2006 and December 31, 2005, respectively. These lines include covenants specifying the use of the funds, financial conditions that the borrower must maintain and other administrative matters. In Management's opinion, these covenants do not limit Credicorp's operations and at the balance sheet date, Credicorp is not in violation of these covenants.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

(A) Directors and Senior Management

Board of Directors

The following table sets forth the current Directors of Credicorp.

Name	Position	Years served as a Director(1)
Dionisio Romero	Chairman	37
Luis Nicolini	Deputy Chairman	31
Fernando Fort	Director	25
Reynaldo Llosa	Director	24
Juan Carlos Verme	Director	17
Luis Enrique Yarur	Director	11
Felipe Ortiz de Zevallos	Director	2(2)
Germán Suárez	Director	2(2)

(1) Of Credicorp, its subsidiaries and their predecessors as of December 31, 2006.

(2) Elected at the Annual General Shareholders' Meeting on March 31, 2005.

Dionisio Romero is an economist with a Masters degree in Business Administration from Stanford University in the United States of America. Mr. Romero was the Chairman of Banco de Crédito del Perú from 1966 to 1987 and has served as a Board Member from December 1990 to the present. He is the Chairman of Credicorp and has held this position since August 1995. He is also Chairman of ASCH, BCB, Grupo Crédito, BCP's subsidiaries and Deputy Chairman of PPS. Additionally, he serves as a Director on the Board of Banco de Crédito e Inversiones Chile.

Luis Nicolini, an industrial banker by profession, has served as Vice Chairman of Banco de Crédito del Perú since August 1995, is also a Director on the Boards of Inversiones Centenario, Alicorp, PPS, and is Chairman of the textile company Fábrica de Tejidos La Bellota. He has been Deputy Chairman of Credicorp since August 1995 and of ASB. He is also Deputy Chairman and Director of BCB and BCP's subsidiaries.

Fernando Fort is a lawyer and Partner at the law firm of Fort, Bertorini Godoy Pollari & Carcelen Abogados S.A. Mr. Fort has served as a Director of Banco de Crédito del Perú from 1979 to 1987 and from March 1990 to the present. He is a Director of Credicorp (since March 1999), ASB, BCB and BCP's subsidiaries. Additionally, Mr. Fort serves as a Director on the Board of Inversiones Centenario and the Boards of various other companies.

Reynaldo Llosa is a business manager and has served as a Director of Banco de Crédito del Perú's from 1980 to October 1987 and from March 1990 to the present. He has been a Director of Credicorp since August 1995, Atlantic Security Bank, Banco de Crédito de Bolivia and BCP's subsidiaries. Mr. Llosa is also the main partner and general manager of the company F.N. Jones S.R. Ltda., and serves as a Director on the Boards of various other companies.

Juan Carlos Verme is a businessman and has served as Director of Banco de Crédito del Perú since March 1990 and as a Director of Credicorp since August 1995. He is also Director, Banco de Crédito de Bolivia, Atlantic Security Bank and BCP's subsidiaries. Mr. Verme is a Chairman of Inversiones Antencinio and also serves as a Director on the Boards of various other companies. He is a member of the Asamblea General de Asociados del Patronato del Museo de Arte de Lima and Vice President of Asociación Cultural Filarmonía.

Luis Enrique Yarur is a businessman with an undergraduate degree in law and graduate degrees in economics and management. He has served as Director of Banco de Crédito del Perú since February 1995 and as a Director of Credicorp on October 31, 2002. Mr. Yarur is Chairman of the Board of Empresas Juan Yarur S. A. C, Banco de Crédito e Inversiones, of Chile, and member of the Boards of various other Chilean companies. He is Vice-president of the Asociación de Bancos e Instituciones Financieras A. G., a member of the International Advisory Board IESE, España and Director of the Bolsa de Comercio de Santiago.

Felipe Ortiz de Zevallos is an industrial engineer with a Masters degree in Management Science from Rochester University and a Management Program degree from Harvard Business School. Mr. Ortiz de Zevallos became a Director of Credicorp on March 31, 2005. Mr. Ortiz de Zevallos serves as Director on the Boards of various other companies, among which are Grupo Apoyo (Chairman), Compañía de Minas Buenaventura S.A. and Universia. Felipe Ortiz de Zevallos is currently Peru's Ambassador to the United States. Until he was appointed as Peru's Ambassador to the United States, Mr. Zevallos served as the President of Universidad del Pacífico in Lima (elected for the period 2004-2009).

Germán Suárez is an economist, and received his Masters degree in economics from Columbia University. Mr. Suárez became a Director of Credicorp on March 31, 2005. Mr. Suárez was President and Chairman of the Board of Banco Central de Reserva del Perú from 1992 to 2001, and serves as Director on the Boards of various other companies, among which are Compañía de Minas Buenaventura S.A. and Refinería La Pampilla.

At the Annual General Shareholders' Meeting held on March 31, 2005, an amendment to the Bye-Laws was adopted whereby the number of Directors was increased from six to eight and the classification of Directors and the staggering of their terms was removed and replaced with three-year terms to be served until the end of the Annual General Shareholders' Meeting for the year in which their respective terms expire. The main reasons for these amendments were to give more stability to the administration of Credicorp and to give pension funds AFPs, whose ownership of Common Shares has steadily increased (see "Item 7. Major Shareholders and Related Party Transactions—(A) Major Shareholders"), direct representation on the Board of Directors. Mr. Ortiz de Zevallos and Mr. Suárez were elected to the two newly created directorships to represent the pension funds.

The Secretary of Credicorp is Dawna L. Ferguson. The Assistant Secretary of Credicorp is Fernando Palao. The Resident Representative of Credicorp in Bermuda is Nicholas G. Trollope.

Executive Officers

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

Name	Position	Years Served as an Officer(1)
Dionisio Romero	Chief Executive Officer	37(2)
Raimundo Morales	Chief Operating Officer	27
Carlos Muñoz	Executive Vice President	26
Walter Bayly	Chief Financial and Accounting Officer	14
José Luis Gagliardi	Senior Vice President, Administration and Human Resources	26(3)
David Saettone	Senior Vice President, Insurance	10

(1) Of Credicorp, its subsidiaries and their predecessors as of December 31, 2006.

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

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

Dionisio Romero, the Chief Executive Officer of Credicorp, also serves on Credicorp's Board of Directors. See "—Directors."

Raimundo Morales, the Chief Operating Officer of Credicorp, is also the General Manager of Banco de Crédito del Perú, having joined BCP in 1980. Previously, Mr. Morales held various positions during his ten years at Wells Fargo Bank in its San Francisco, São Paulo, Caracas, Miami and Buenos Aires offices. His last position was Vice President for the Southern Region of Wells Fargo. From 1980 to 1987, Mr. Morales was Executive Vice President in charge of BCP's Wholesale Banking Group. From 1987 to 1990 he was the General Manager of ASB in Miami. He rejoined BCP as General Manager in 1990. Mr. Morales received his Masters degree in Finance from the Wharton School of Business in the United States.

Carlos Muñoz, the Executive Vice President of Credicorp, is also the Deputy General Manager of Banco de Crédito del Perú and the President of ASB. He previously served as Senior Vice President and Manager of BCP's Metropolitan group and later managed the Retail Banking Group as an Executive Vice President. Previously, Mr. Muñoz held positions as an Investment Officer for the International Finance Corporation (World Bank Group) in Washington, D.C. and with the Philadelphia National Bank in Philadelphia, Paris and Buenos Aires, where his last position was Assistant Vice President and Regional Representative. From 1988 to 1990, Mr. Muñoz served as Executive Vice President of ASB. Mr. Muñoz received his Masters degree in Finance from the Wharton School of Business in the United States.

Walter Bayly was appointed Chief Financial and Accounting Officer of Credicorp and Executive Vice President of Planning and Finance of Banco de Crédito del Perú in April 2004. Previously, Mr. Bayly held various other management positions within BCP, having managed the Wholesale Banking Group as well as various Areas of BCP. Mr. Bayly joined BCP in 1993, after three years at Casa Bolsa México where he was Partner and Managing Director in Corporate Finance and after ten years at Citibank in Lima, New York, México, and Caracas, where he worked primarily in the Corporate Finance and Loan Syndication groups. Mr. Bayly received a Bachelor degree in Business Administration from Universidad del Pacífico in Lima, Perú, and a Masters degree in Management from Arthur D. Little Management in Cambridge, Massachusetts.

José Luis Gagliardi, the Senior Vice President, Administration and Human Resources of Credicorp and Executive Vice President of Administration of Banco de Crédito del Perú, first joined BCP in 1981. From March 1981 until December 1988 he served as the Manager of Human Resources and Central Manager of Resources and Administration. In 1988, Mr. Gagliardi left BCP to manage Human Resources for Bank of America's Latin American Group. He rejoined BCP in November 1990.

David Saettone is the Senior Vice President, Insurance of Credicorp and the General Manager of PPS. He is an economist with a Masters degree and PhD from Princeton University in the United States. He was the General Manager of BCB and Chief of the Gabinete de Asesores y Unidad de Coordinación de Préstamos Sectoriales of the Economy and Finance Office, Perú. He was also Manager of the Corporate Finance Area of BCP.

(B) Compensation

The aggregate amount of compensation paid by Credicorp to all Directors and executive officers for 2006 was US\$36.2 million. Credicorp does not disclose to its shareholders or otherwise make available to the public information as to the compensation of its individual directors or executive officers.

Pursuant to the Credicorp Stock Appreciation Rights (SARs) Plan (the "Plan") which Credicorp instituted beginning in fiscal year 1999, Credicorp granted SARs to certain key executives and employees (Directors and administrative, supervisory and management personnel) who have at least one year's service in Credicorp or any of its subsidiaries during each year since 1999 and through 2006. Each SAR expires eight years after the date of grant. The rights vest in

25% increments during the first four years following the date of grant. From the end of the fourth year after the grant of a SAR until the expiration date of it, all or a portion of such right still outstanding under the Plan may be exercised at any time. The following table shows the number of SARs granted and corresponding exercise price for each year.

114

Year	Number of Outstanding SARs granted	Exercise price in US\$
2000	509,000	8.80
2001	555,000	5.60
2002	558,750	7.28
2003	562,500	8.47
2004	570,000	11.29
2005	585,000	16.30
2006	621,000	25.62

In 2003, 2004, 2005 and 2006, prices of the SARs were modified. The exercise prices of the SARs are reduced by an amount equal to the excess over US\$0.70 of total dividends paid per share in a given year. As of December 31, 2006, Options on 948,925 Common Shares had been exercised (662,200 as of December 31, 2005) for an approximate amount of US\$29.3 million in 2006 (US\$9.6 million in 2005). See Note 19 to Credicorp Consolidated Financial Statements.

During 2006, Credicorp has signed a contract to acquire certificates indexed to the performance of Credicorp's stocks as a means to hedging the SARs delivered to the executives of Credicorp. See Note 11 to Credicorp Consolidated Financial Statements.

The following table sets forth the movement of the SARs for the periods indicated:

	2006			2005		
	Outstanding SARs Number	Vested SARs Number	Vested SARs Amount US\$(000)	Outstanding SARs Number	Vested SARs Number	Vested SARs Amount US\$(000)
Balance as of January 1st	2,201,275	1,658,932	22,813	2,278,475	1,759,601	11,700
Granted and vested	621,000	600,046	12,838	585,000	561,531	7,448
Exercised	(948,925)	(948,925)	(29,292)	(662,200)	(662,200)	(9,614)
Decrease	(15,000)	(8,125)	(232)	-	-	-
Increase in the option fair value	-	-	32,634	-	-	13,279
Balance as of December 31	1,858,350	1,301,928	38,761	2,201,275	1,658,932	22,813

The following table sets forth the number of SARs vested and the price of such SARs for the periods indicated:

Year of Insurance	Number of outstanding SARs as of December 31, 2006	Number of Vested SARs as of December 31		Exercise price	
		2006	2005	2006 US\$	2005 US\$
1999	-	-	110,000	7.64	8.34
2000	68,750	68,750	187,250	8.80	9.50
2001	81,500	81,500	192,550	5.60	6.30
2002	117,500	117,500	285,225	7.28	7.98
2003	220,000	220,000	359,844	8.47	9.17
2004	352,750	317,984	294,375	11.29	11.99
2005	457,600	281,038	229,688	16.30	17.00
2006	560,250	215,156	-	25.62	-
	1,858,350	1,301,928	1,658,932		

(C) Board Practices

The management of Credicorp is the responsibility of the Board of Directors, which, pursuant to the Bye-Laws, is composed of eight persons. Directors need not be shareholders. Directors are elected and their remuneration is determined at Annual General Shareholders' Meetings. Directors hold office for three-year terms. The date of expiration of the current Board is March 31, 2008. Credicorp's current Directors have no benefits in addition to the remuneration agreed at the Annual General Shareholders' Meetings, nor benefits that could be enjoyed at the termination of their service terms.

Pursuant to the Bye-Laws, the number of Directors required to constitute a quorum is a majority of the Directors. A quorum must exist throughout any meeting of Directors. A Director can appoint another Director to act as his representative at a meeting of the Board of Directors. The Board of Directors may act by the unanimous written consent of all Directors.

The Audit Committee is responsible for assisting in the recommendation of independent auditors to be appointed at the Annual General Shareholders' Meeting of Credicorp and reviewing the scope of internal and external audits. The Audit Committee also reviews compliance with internal control systems, reviews Credicorp's annual and quarterly financial statements before their presentation to regulatory bodies and maintains the integrity of the preparation of audits. The members of the Audit Committee are currently Messrs. Yarur (Chairman), Nicolini, Llosa and Verme.

Credicorp's Audit Committee has also been assigned by the Board of Directors to oversee the internal audit departments at BCP and PPS. As permitted by SBS Resolution No. 1041-99, BCP's internal audit department has responsibility over all financial activities of its subsidiaries.

In accordance with Section 303A.11 of the New York Stock Exchange Listed Company Manual, Credicorp has disclosed on its website (www.credicorpn.net) the significant ways in which its corporate governance practices differ from those required of domestic company under the New York Stock Exchange's corporate governance standards.

(D) Employees

At December 31, 2006, Credicorp had 13,090 full time employees, distributed as set forth in the following table:

	2004	At December 31, 2005 <i>(Full-time employees)</i>	2006
BCP	7,694	7,568	8,243
Banco Tequendama	345	0	0
PPS	1,093	1,099	1,159
ASHC	56	57	61
Prima AFP	-	457	1,729
Others	370	363	340
Total Credicorp	9,558	9,544	11,532

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* (the Federation of Banking Employees, or “FEB”). In order to negotiate a collective agreement on behalf of its members, FEB must have as members over 50% of all Peruvian banking employees. Because the representation of banking employees members of FEB declined to below 50%, the most recent collective bargaining agreement, which expired on June 30, 1995, was not renewed.

BCP was granted permission by the Peruvian Ministry of Labor to cancel the registration of BCP’s union in 1996 due to limited participation. As of December 31, 2006, no BCP employees belonged to a union. The last strike by union employees occurred in 1991 and did not interfere with BCP’s operations.

(E) Share Ownership

As of December 31, 2006, Grupo Romero owned 15.1 million (16.0%) of Credicorp’s Common Shares. With the exception of the Romero family holdings, represented by Mr. Dionisio Romero, no other director or executive officer of Credicorp beneficially owns more than one percent of the Common Shares. See “Item 7. Major Shareholders and Related Party Transactions—(A) Major Shareholders.”

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**(A) Major Shareholders**

As of December 31, 2006, there were 94,382,317 Common Shares issued, of which 14,620,845 Common Shares were held by ASHC. Under Bermuda law, ASHC has the right to vote the Common Shares it owns. In order to restructure long term holdings, substantially all of the Common Shares held by BCP and PPS were transferred to ASHC in April 2004.

The table below provides details about the percentage of Common Shares owned by holders of 5% or more of Common Shares, of April 30, 2007.

Owner	Common Shares	Percent of Class ⁽¹⁾
Romero family ⁽²⁾	15,106,752	16.01%
Atlantic Security Holding Corporation	14,620,842	15.49%
AFP Integra	9,439,882	10.00%
AFP Horizonte	6,583,769	6.98%
AFP Prima	8,810,060	9.33%

(1) As a percentage of issued and outstanding shares (including shares held by BCP, ASHC and PPS).

(2) Includes Common Shares directly or indirectly owned by Dionisio Romero and his family or companies owned or controlled by him. Mr. Romero is the Chairman and Chief Executive Officer of Credicorp.

Approximately 29.14% of the total issued and outstanding Common Shares of Credicorp are currently held in 1,984 individual accounts with Cavali, a Peruvian securities clearing company.

As of April 30, 2007, 79,761,475 Common Shares of Credicorp (excluding the 14,620,842 shares held by ASHC) were outstanding, of which approximately 55% were held in the United States. As of such date, there were 112 registered holders of Common Shares in the United States. Because certain of these Common Shares were held by brokers or other nominees and due to the impracticability of obtaining accurate residence information for all beneficial shareholders, the number of holders of record or registered holders of the United States is not representative of the number of beneficial holders or of the residence of beneficial holders. Credicorp is not directly or indirectly controlled by another corporation or by any foreign government.

(B) Related Party Transactions

(i) Credicorp

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

The consolidated financial statements of Credicorp as of December 31, 2006 and 2005 include the transactions with related parties of the companies mentioned in Note 3(b) to Credicorp Consolidated Financial Statements. For its 2006 and 2005 financial statements, Credicorp defines related parties as related companies, the members of the Board of Directors, Credicorp's key executives (*i.e.*, the management of Credicorp Ltd.) and enterprises that are controlled by these individuals or entities through majority shareholding or their role as chairman or principal executive officers.

The following table shows the main transactions with related companies as of December 31, 2006 and 2005:

	Related companies	
	2006	2005
	<i>(In U.S. Dollars in thousands)</i>	
Direct loans	70,636	48,533
Unrealized gain from investments	34,226	23,393
Investments available por sale	27,899	21,815
Deposits	25,074	21,305
Contingent operations	13,925	8,379
Interest income related to loans	2,097	1,991
Interest expense related to deposits	1,505	991
Derivatives (market value)	179	388
Other income	953	546

The loans, contingent operations and derivative contracts with related parties were made in the ordinary course of business, on substantially the same terms prevailing at the time they were made for comparable transactions with other persons, including with respect to interest and collateral, and did not involve more than the normal risk of collectability or present other unfavorable features. The loans to related companies as of December 31, 2006 had a maturity between January 2007 and August 2012 and an accrued interest average of 7.71%. As of December 31, 2006, the provision for doubtful debts due to related parties amounts to US\$0.1 million (US\$1.4 million as of December 31, 2005). This amount is calculated based on a continuous assessment of the financial position of the related party and the market in which it operates.

As of December 31, 2006 and 2005, directors, officers and employees of Credicorp have been involved, directly and indirectly, in credit transactions with certain subsidiaries of Credicorp, as permitted by Peruvian Law N°26702, which regulates certain transactions with employees, directors and officers of banks and insurance companies in Peru. As of December 31, 2006 and 2005, direct loans to employees, directors and officers amounted to US\$59.5 and US\$25.1 million, respectively. These loans are repaid monthly and accrue interest at market rates. Credicorp does not grant loans to the directors and key personnel where shares of Credicorp or other companies within the Group are used as guarantee.

The following reflects Credicorp's subsidiaries key executives compensation as of December 31, 2006 and 2005:

	2006	2005
	<i>(In U.S. Dollars in thousands)</i>	
Stock appreciation rights	23,206	7,284
Salaries	4,824	4,357
Directors compensations	1,173	1,115
Other	6,962	2,185
Total	36,165	14,941

Credicorp's subsidiaries key executives compensation comprises all the payments received by them, including taxes, which are assumed by the Bank.

(C) Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

(A) Consolidated Statements and Other Financial Information

Consolidated Financial Statements

See "Item 19. Exhibits" for a list of financial statements filed under Item 18.

Legal Proceedings

Credicorp and its subsidiaries are involved in certain legal proceedings incidental to the normal conduct of their businesses. In addition, Credicorp was involved in certain legal proceedings in connection with its acquisition of Banco Tequendama. See "Item 4. Information on the Company—(C) Organizational Structure." Credicorp does not believe that any potential liabilities resulting from such proceedings would have a material adverse effect on the financial condition or results of operation of Credicorp or any of its subsidiaries.

Government Investigations

Credicorp and its subsidiaries are not involved in government investigations.

Dividend Policy

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

Credicorp will rely almost exclusively on dividends from its subsidiaries for the payment of dividends to holders of Common Shares and for corporate expenses, and is able to cause its subsidiaries to declare dividends, subject to certain reserve and capital adequacy requirements under applicable banking and insurance regulations. To the extent Credicorp's subsidiaries do not have funds available or are otherwise restricted from paying dividends to Credicorp, Credicorp's ability to pay dividends on the Common Shares will be adversely affected. Currently, there are no restrictions on the ability of BCP, ASHC, PPS, or any other Credicorp subsidiary to remit dividends abroad. In addition, BCP and PPS intend to declare and pay dividends in Nuevos Soles, whereas Credicorp intends to declare and pay dividends in U.S. Dollars. If the value of the Nuevo Sol falls relative to the U.S. Dollar between the date of declaration and the date of payment of dividends, the value of such dividends to Credicorp would be adversely affected. See "Item 3. Key Information—(A) Selected Financial Data—Exchange Controls."

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

Year ended December 31,	Number of Shares Entitled to Dividends	Cash Dividends Per Share	Stock Dividends Per Share
1999	94,382,317	US\$0.20	0.00
2000	94,382,317	US\$0.10	0.00
2001	94,382,317	US\$0.10	0.00
2002	94,382,317	US\$0.40	0.00
2003	94,382,317	US\$0.30	0.00
2004	94,382,317	US\$0.40	0.00
2005	94,382,317	US\$0.80	0.00
2006	94,382,317	US\$1.10	0.00

On February 28, 2007, the Board declared a cash dividend of US\$1.30 per Common Share held at the close of business on April 9, 2007, which was distributed on May 7, 2007 and approved by the Annual General Meeting held on March 30, 2007.

(B) Significant Changes

In June 2005, Credicorp's Board of Directors adopted amendments to the policies of the Audit Committee in response to the requirements of the U.S. Sarbanes-Oxley Act of 2002. The amended policies include a detailed description of the Audit Committee's oversight role in ensuring the integrity of Credicorp's financial statements, compliance with legal requirements, the independence and qualifications of auditors, and sufficiency of Credicorp's disclosure controls and procedures and internal controls over financial reporting. The policies were also updated to reflect the independence requirements and the financial expert requirements of the Audit Committee pursuant to the U.S. Sarbanes-Oxley Act of 2002.

ITEM 9. THE OFFER AND LISTING**(A) Offer and Listing Details*****Price History of Credicorp's Stock***

Credicorp's Common Shares have been traded on the New York Stock Exchange since October 25, 1995 under the symbol "BAP." The Common Shares also trade on the Lima Stock Exchange. The Common Shares are quoted in U.S. Dollars on both the New York Stock Exchange and the Lima Stock Exchange. The table below sets forth, for the periods indicated, the reported high and low closing prices and average daily trading volume for the Common Shares on the New York Stock Exchange.

	High(1)	Low(1)	Average Daily Volume
2002	US\$10.10	US\$6.91	38,371
2003	US\$13.38	US\$9.35	41,931
2004	US\$15.87	US\$12.00	22,184
2005	US\$28.81	US\$14.41	82,338
2006	US\$45.42	US\$21.88	176,388
2005			
First quarter	US\$17.71	US\$14.41	18,500
Second quarter	US\$19.09	US\$16.70	32,672
Third quarter	US\$27.43	US\$19.00	46,200
Fourth quarter	US\$28.81	US\$21.88	231,554
2006			
First quarter	US\$28.99	US\$21.88	145,969
Second quarter	US\$29.21	US\$24.81	178,809
Third quarter	US\$41.17	US\$28.13	206,243
Fourth quarter	US\$45.42	US\$38.42	154,515
2007			
First quarter	US\$51.68	US\$38.80	283,922
Second quarter (through June 8)	US\$61.95	US\$47.92	277,383

Source : Bloomberg

(1)The Common Share prices shown above have been adjusted retroactively to reflect stock dividends. Credicorp declared a stock dividend on February 26, 1998 of 0.100 Common Shares for each Common Share held at the close of business on March 31, 1998. Credicorp has not declared a stock dividend since 1998.

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

	High(1)	Low(1)	Average Daily Volume
2002	US\$10.06	US\$7.01	39,355
2003	US\$12.60	US\$9.38	29,701
2004	US\$15.70	US\$12.08	21,564
2005	US\$28.99	US\$14.33	15,744
2006	US\$45.58	US\$38.27	16,950
2005			
First quarter	US\$17.62	US\$14.33	11,153
Second quarter	US\$19.01	US\$15.97	19,616
Third quarter	US\$27.45	US\$18.74	10,742
Fourth quarter	US\$28.99	US\$21.90	21,472
2006			
First quarter	US\$28.99	US\$22.41	9,277
Second quarter	US\$28.96	US\$24.83	19,336
Third quarter	US\$40.95	US\$27.96	11,625
Fourth quarter	US\$45.58	US\$38.27	27,562
2007			
First quarter	US\$51.68	US\$39.00	14,553
Second quarter (through June 8)	US\$61.80	US\$47.93	42,703

Source: Bloomberg

(1) The Common Share prices shown above have been adjusted retroactively to reflect stock dividends. Credicorp declared a stock dividend on February 26, 1998 of 0.100 Common Shares for each Common Share held at the close of business on March 31, 1998. Credicorp has not declared a stock dividend since 1998.

The table below sets forth, for the indicated months, the reported high and low closing prices for the Common Shares on the New York Stock Exchange.

	High	Low
2006		
December	US\$42.00	US\$39.04
2007		
January	US\$41.67	US\$38.80
February	US\$51.68	US\$42.45
March	US\$48.17	US\$43.02
April	US\$52.61	US\$47.92
May	US\$61.95	US\$53.15
June (through June 8)	US\$58.04	US\$55.49

Source: Bloomberg

123

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

	High	Low
2006		
December	US\$41.83	US\$39.00
2007		
January	US\$41.15	US\$39.00
February	US\$51.68	US\$42.07
March	US\$48.26	US\$43.10
April	US\$52.81	US\$47.93
May	US\$61.80	US\$54.50
June (through June 9)	US\$58.15	US\$55.50

Source: Bloomberg

On June 27, 2007, the last sale price of the Common Shares on the New York Stock Exchange was US\$59.63 per share. On June 27, 2007, the closing price of the Common Shares on the Lima Stock Exchange was US\$59.80.

(B) Plan of Distribution

Not applicable.

(C) Markets

The Lima Stock Exchange

(i) Trading

As of December 2006, there were 241 companies listed on the *Bolsa de Valores de Lima* (Lima Stock Exchange), Peru's only securities exchange, which was established in 1970. Trading on the Lima Stock Exchange is primarily done on an electronic trading system that became operational in August 1995. Trading hours are Monday through Friday as follows: 9:00 a.m.-9:30 a.m. (pre-market ordering); 9:30 a.m.-1:30 p.m. (trading); and 1:30 p.m.-2:00 p.m. (after market sales). Equity securities may also be traded in an open outcry auction floor session, which was the exclusive method of trading equity securities prior to the introduction of electronic trading. Nearly 100% of transactions currently take place on the electronic system.

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

The Peruvian stock market capitalization increased, in U.S. Dollar terms, by 15.9% in 2002, 27.7% in 2003, 25.0% in 2004, 80.0% in 2005 and 65.8% in 2006. Volume in the Peruvian market is highly concentrated, with the 10 most actively traded companies representing approximately 65.95% of total traded value of equity securities during 2005. Total traded volume was US\$2.9 billion in 2002, and declined to US\$2.3 billion in 2003, but increased to US\$2.5 billion in 2004, to US\$3.6 billion in 2005 and further to US\$6.3 billion in 2006. Average daily traded volume

was US\$11.7 million in 2002, declined to US\$9.0 million in 2003, but increased to US\$9.9 million in 2004, to US\$14.5 million in 2005 and further to US\$25.1 million in 2006.

The *Indice General de la Bolsa de Valores de Lima* (the General Index of the Lima Stock Exchange (IGBVL)) increased, in U.S. Dollar terms, 16.3% in 2002, 76.3% in 2003, 52.4% in 2004, 29.4% in 2005 and 186.9% in 2006. The 2006 results make the Lima Stock Exchange the most profitable stock market in the world in terms of growth in U.S. Dollar terms.

(ii) Market Regulation

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

CONASEV, a public entity reporting to Peru’s Ministry of Economy and Finance, was given additional responsibilities relating to the supervision, regulation and development of the securities market, while a self-regulatory status was established for the Lima Stock Exchange and its member firms. Additionally, a unified system of guarantees and capital requirements was established for the Lima Stock Exchange and its member firms.

CONASEV is governed by a nine-member board appointed by the government. CONASEV has broad regulatory powers, including supervision of all companies incorporated in Peru as well as Peruvian branches or agencies of foreign corporations, the process of admission of members to the Lima Stock Exchange, the authorization for the creation of exchanges, and the approval of the registration of offerings of securities. CONASEV supervises the securities markets and the dissemination of information to investors. It also governs the operations of the Public Registry of Securities and Brokers, regulates mutual funds and their management companies, monitors compliance with accounting regulations by companies under its supervision and the accuracy of financial statements, and registers and supervises auditors providing accounting services to those companies under CONASEV’s supervision. On August 22, 1995, CONASEV approved regulations governing the public offering of securities in Peru by entities organized outside of Peru and, for the first time, authorized foreign companies to be listed on the Lima Stock Exchange. On October 25, 1995, Credicorp became the first non-Peruvian company to list its shares on the Lima Stock Exchange. See “Item 4. Information on the Company—(B) Business Overview—(11) Supervision and Regulation.”

Pursuant to the Securities Market Law, a guarantee fund must be maintained by the Lima Stock Exchange and funded by its member firms. The actual contributions to be made by the 21 member firms of the Lima Stock Exchange are based on volume traded over the exchange. At present, the fund has approximately S/.19 million (US\$5.98 million), which exceeds the target set by the regulations based on the exchange’s total traded volume. In addition to the guarantee fund managed by the Lima Stock Exchange, each member firm is required to maintain a guarantee for operations carried outside the exchange in favor of CONASEV. The manner in which such guarantees are generally established is through stand-by letters of credit issued by local banks.

(D) Selling Shareholders

Not applicable.

(E) Dilution

Not applicable.

(F) Expenses of the issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

(A) Share Capital

Not applicable.

(B) Memorandum and Articles of Association

“Item 10. Additional Information—Memorandum and Articles of Incorporation” from Credicorp’s Annual Report on Form 20-F dated June 27, 2003 is incorporated herein by reference.

At the Annual General Shareholders’ Meeting held on March 31, 2005, an amendment to the Bye-Laws was adopted whereby the number of Directors was increased from six to eight and the classification of Directors and the staggering of their terms was removed and replaced with three-year terms to be served until the end of the Annual General Shareholders’ Meeting for the year in which their respective terms expire. The main reasons for these amendments were to give more stability to the administration of Credicorp and to give AFPs, whose ownership of Common Shares has steadily increased (see “Item 7. Major Shareholders and Related Party Transactions—(A) Major Shareholders”), direct representation on the Board of Directors. Mr. Ortiz de Zevallos and Mr. Suárez were elected to the two newly created directorships to represent the pension funds.

(C) Material Contracts

As of the date hereof, there are no material contracts entered into by Credicorp and/or its subsidiaries.

(D) Exchange Controls

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

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

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

Although substantially all of the customers of BCP, ASHC and PPS are located in Peru, as of December 31, 2006, approximately 73% of BCP's loan portfolio, 100% of ASHC's loan portfolio and 61.6% of PPS's premiums were denominated in U.S. Dollars. A devaluation of the Nuevo Sol would therefore have the effect of increasing the cost to the borrower or insured of repaying these loans or making premium payments, in Nuevo Sol terms, which is the currency in which most of the customers of BCP, ASHC and PPS generate revenues. As a result, a devaluation could lead to increased nonperforming loans or unpaid premiums.

Among the economic circumstances that could lead to a devaluation would be a decline in Peruvian foreign reserves to inadequate levels. Although the current level of Peru's foreign reserves compares favorably with those of other Latin American countries, there can be no assurance that Peru will be able to maintain adequate foreign reserves to meet its foreign currency denominated obligations or that Peru will not devalue its currency should its foreign reserves decline. See "Item 4. Information on the Company—(B) Business Overview—(9) Peruvian Government and Economy."

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

(E) Taxation

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by Credicorp or by its shareholders in respect of its shares. Credicorp has obtained an assurance from the Minister of Finance of Bermuda under the Exempted Undertakings Tax Protection Act 1966 that, in the event that any legislation is enacted in Bermuda imposing any tax computed on profits or income, or computed on any capital asset, gain or appreciation or any tax in the nature of estate duty or inheritance tax, such tax shall not, until March 28, 2016, be applicable to it or to any of its operations or to its shares, debentures or other obligations except insofar as such tax applies to persons ordinarily resident in Bermuda or to any taxes payable by Credicorp in respect of real property owned or leased by it in Bermuda.

As an exempted company, Credicorp is liable to pay in Bermuda an annual government fee based upon its authorized share capital and the premium on its issued Common Shares, which amounted to the approximate equivalent of US\$16,695 in 2006, remaining unchanged from the amount paid in 2005.

(F) Dividends and Paying Agents

Not applicable.

(G) Statement by Experts

Not applicable.

(H) Documents on Display

The documents referred to in this Annual Report are available for inspection at the Registered Office of the Company.

(I) Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Credicorp has specific risk management policies and procedures that structure and delineate exposures to credit risks, market risk, liquidity and, more recently, operational risks (see “Item 4. Information on the Company—(B) Business Overview—(11) Supervision and Regulation—(ii) BCP—Management of Operational Risk”).

Market risk is the risk of loss to future earnings, to fair values, or to future cash flows, related to financial instruments registered or not on Credicorp’s balance sheet, arising from adverse changes in market factors that affect their valuation, such as interest rates, foreign currency exchange rates, commodity prices, and other relevant market or price changes. Market risk is attributed to all market risk sensitive financial instruments, including securities, loans, deposits, borrowings, as well as derivative instruments. Special emphasis is placed in managing exposure due to mismatched positions in maturities, foreign currency and interest rates.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the volatility inherent in financial instruments.

Credicorp’s primary market risk exposure is that to interest rates as the net interest income is affected primarily by interest rate volatility and, to a lesser extent, to foreign currency exchange risk. The management of interest rate risk must incorporate the differences between Nuevos Soles and Foreign Currency-based interest-sensitive assets and liabilities. With the exception of foreign currency forward contracts and a limited number of interest rate hedging instruments, Credicorp has not entered into derivative instrument contracts. Credicorp’s policy has been to hedge substantially all of the exchange risk of its forward contracts.

Asset and Liability Management

Credicorp’s exposure to market risk is a function of its investment and trading activities, as well as the structure and composition of its assets and liabilities. Credicorp’s Asset and Liability Management (“ALM”) policy seeks to ensure sufficient liquidity to meet operational funding requirements, as well as to supervise, measure and control interest rate risks, exchange risks, and market risks on securities trading positions. Credicorp, through its various operating areas, applies non-statistical and statistical models, such as the Value-at-Risk (“VaR”) methodology, for the ALM tasks.

At BCP, decisions regarding management of liquidity, interest rate policy, foreign exchange position and other significant ALM matters are made by the Market Risk Committee which is composed of seven members, including the five members of the Executive Committee of the Board of Directors, BCP’s General Manager and the Head of the Market Risk Area. The Market Risk Committee meets monthly. Additionally BCP has an Asset and Liability Committee (“ALCO”) that meets monthly to review the overall risk exposure and to decide on strategies to improve its financial structure. Also, BCP’s Capital Markets Group has an Investment Committee, that makes decisions on positions held on all possible types of securities.

Day-to-day ALM decisions are made by the Central Manager of Finance and the Treasury Department and reviewed in the weekly senior management meeting. The Market Risk Area is in charge of the measurement, control and follow-up of all positions that involve market risk exposure.

At ASHC, decisions regarding asset and liability management are made by the President, Senior Vice President, Manager of Operations and Administration, and the Chief Financial Officer. ASHC has an Investment Committee in charge of putting forward possible limits by type of exposure and to monitor the risk profile of ASHC's various investment portfolios.

Credicorp uses a variety of tools to measure market risks arising from changes in the price of financial instruments and securities prices. Non-statistical methods to measure market risks include: position limits for each trading activity and their allowable risk ("Stop-loss"), marking of all positions to market, profit and loss statements, position reports, and independent verification of the pricing of positions. The statistical estimation of potential losses under adverse market conditions is considered an important tool in the market risk measurement at Credicorp, and for that purpose the VaR methodology is used for certain market risks in its historic simulation version at a 99% confidence level. Testing exercises are performed periodically by which VaR estimates are compared with actual results.

The VaR, in its historical simulation version, is applied to products managed by the Capital Markets Group that are affected by price risk. This methodology is applied to: (i) the foreign currency positions ("spot" and "forward" foreign currency contracts), (ii) the securities portfolio (fixed income, equities and government bonds), and (iii) money market instruments (certificates and overnight deposits).

Additionally, the risk analysis of the investment portfolio is complemented by various indicators including the *Degree of Portfolio Diversification*, which measures the concentration of investments taking into account their risk factors, and VaR as a percentage of the investment, which measures the risk level assumed in a specific segment of the portfolio. As of year-end 2006, BCP maintains a Degree of Portfolio Diversification of 45% (36% in 2005) and a ratio of VaR over total portfolio of 0.13% (0.25% in 2005). BCP has established VaR limits and Stop-loss limit alerts as a function of the maximum potential losses in unfavorable market scenarios that it is willing to assume in the portfolio of each type of security.

BCP's Market Risk Area issues, on a daily basis to the Treasurer and trading managers and to the Chief Financial Officer, reports on positions, profits and losses, VaR results, as well as a series of alerts that have been incorporated using VaR estimates. The Market Risk Committee is provided reports on a monthly basis. Credicorp believes that these procedures, which stress timely communication between the Market Risk Area and senior management, are important elements of the risk management process.

The following table sets forth the maturities of Credicorp's trading securities by type at December 31, 2006. See "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(ii) Investment Portfolio":

	Within 3 months	After 3 months But within 1 year	Total	Fair Value
	<i>(U.S. Dollars in thousands, except percentages)</i>			
Nuevo Sol-denominated:				
Peruvian Government Bonds	US\$—	US\$—	US\$—	US\$—
Equity securities	30,800	—	30,800	30,800
Bonds and debentures	—	—	—	—
Peruvian Central Bank certificates notes	—	—	—	—
Other investments	—	—	—	—
Total Nuevo Sol-denominated	US\$30,800	US\$—	US\$30,800	US\$30,800
Foreign Currency-denominated:				
Equity securities	US\$3,892	US\$—	US\$3,892	US\$3,892
Bonds	531	1,729	2,260	2,260
Investment in Peruvian debt	—	—	—	—
Other investments	7,334	848	8,182	8,182
Total Foreign Currency-denominated	US\$11,757	US\$2,577	US\$14,334	US\$14,334
Total securities holdings	US\$42,557	US\$2,577	US\$45,134	US\$45,134

The "Foreign Currency-denominated Other investments," US\$8.2 million in the preceding table, are principally composed of US\$6.5 million of shares in mutual funds.

Given the relatively higher volatility of Nuevo Sol-denominated interest rates compared to foreign currency-denominated rates, maturities of Nuevo Sol-denominated securities are essentially of shorter term than foreign currency-denominated investments. Peruvian Central Bank certificate notes have an important share in the portfolio mostly because they are actively traded in the secondary capital markets which in turn facilitates the management of their position.

The following table sets forth the maturities of Credicorp's available-for-sale investment securities by type at their fair value as of December 31, 2006. See "Item 4. Information on the Company—(B) Business Overview—(12) Selected Statistical Information—(ii) Investment Portfolio":

	Within 1 year	After 1 year but within 3 years	After 3 years but within 5 years	Maturing after 5 years but within 10 years	After 10 years	Total Fair Value
<i>(U.S. Dollars in thousands)</i>						
Nuevo						
Sol-denominated:						
Peruvian Government						
Bonds	US\$1,725	US\$6,845	US\$36,212	US\$29,816	US\$82,292	US\$156,890
Equity securities (1)	117,533	—	—	—	—	117,533
Bonds and debentures	12,843	22,362	10,462	3,130	25,213	74,010
Peruvian Central Bank						
Certificates Notes	1,236,091	41,522	—	—	—	1,277,613
Other Investments	241,682	5,718	4,781	—	11,932	264,113
Total Nuevo						
Sol-denominated	US\$1,609,874	US\$76,447	US\$51,455	US\$32,946	US\$119,437	US\$1,890,159
Foreign						
currency-denominated:						
Peruvian Government						
Bonds	US\$1,475	US\$24,034	US\$4,874	US\$114,327	US\$123,525	US\$268,235
Equity securities	98,651	—	—	—	—	98,651
Bonds	157,871	342,635	160,143	167,549	283,753	1,111,951
Other investments	10,074	6,197	12,334	18,292	6,554	53,451
Total Foreign						
currency-denominated	US\$268,071	US\$372,866	US\$177,351	US\$300,168	US\$413,832	US\$1,532,288
Total securities holding						
	US\$1,877,945	US\$449,313	US\$228,806	US\$333,114	US\$533,269	US\$3,422,447

(1) Equity securities in Credicorp's trading account are categorized as maturing within one year, while other equity securities are categorized according to their maturity.

The Foreign Currency-denominated Other Investments, US\$199.8 million in the preceding table, are principally composed of US\$96.2 million of participation units in various mutual funds, US\$15.7 million of commercial paper and US\$51.2 million in required deposits reserves managed by the Bolivian Central Bank in the *Fondo RAL* and US\$28.0 million in other investments.

Interest Rate Risk Management

A key component of Credicorp's asset and liability management policy is the management of adverse changes in earnings as a result of changes in interest rates. The management of interest rate risk relates to the timing and magnitude of the repricing of assets compared to liabilities and attempts to control of risks associated with movements in interest rates. Credicorp hedges some of its interest rate risk through the use of interest rate derivative contracts. As part of the management of interest rate risks, both of BCP's Market Risk Committee and ALCO may direct changes in the composition of the balance sheet.

One method of measuring interest rate risk is by measuring the impact of interest rate changes over the financial margin, or the interest rate sensitivity gap. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or repricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is matched when an equal amount of such assets and liabilities mature or reprice in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decrease in interest rates would have a positive effect on net interest income, while an increase in interest rates would have a negative effect on net interest income. The financial margin exposure is usually analyzed for a period limited to a 12-month horizon.

A second measure of interest rate risk extends the period of analysis, considering expected durations of interest rate-sensitive assets and liabilities, to determine variations in their economic value due to interest rates changes.

The following table reflects, according to maturity, repricing and by currency, the interest-earning assets and interest-bearing liabilities of Credicorp as of December 31, 2006, and may not be representative of positions at other times. In addition, variations in interest rate sensitivity may arise within the repricing periods presented or among the currencies in which interest rate positions are held. Credicorp actively monitors and manages its interest rate sensitivity and has the ability to reprice relatively promptly both its interest-earning assets and interest-bearing liabilities. On the basis of its gap position at December 31, 2006, Credicorp believes that a significant increase or decrease in interest rates would not reasonably be expected to have a material effect on Credicorp's financial condition or results of operations.

	Earliest Repricing Interval at December 31, 2006 (2)					
	Overnight to 3 months	Over 3 to 12 months	Total within 1 year	Over 1 to 5 years	Over 5 Years	Total
<i>(U.S. Dollars in thousands, except percentages)</i>						
Nuevo Sol-denominated:						
Assets:						
Loans, net	926,736	260,750	1,187,486	277,431	19,160	1,484,077
Investment securities	514,419	744,133	1,258,552	114,532	50,978	1,424,061
Deposits in other banks	46,697	7,011	53,708	—	—	53,708
Off-Balance debit accounts, Forwards	280,794	275,614	556,408	3,636	14	560,058
Total	1,768,646	1,287,508	3,056,154	395,598	70,151	3,521,903
Liabilities:						
Demand and saving deposits	921,572	182,055	1,103,627	9,803	—	1,113,430
Time deposits (1)	738,432	233,460	971,892	267	—	972,159
Interbank deposits received	58,405	8,855	67,260	6,691	—	73,951
Bonds and other liabilities	10,825	24,937	35,761	130,916	11,319	177,996
Off-Balance credit accounts, Forwards	545,580	31,000	576,580	20,450	—	597,030
Total	2,274,814	480,307	2,755,120	168,127	11,319	2,934,566
Interest Sensitivity gap	(506,168)	807,201	301,034	227,471	58,832	587,337
Cumulative interest sensitivity gap	(506,168)	301,034	301,034	528,504	587,337	587,337
Cumulative interest-earning assets	1,768,646	3,056,154	3,056,154	3,451,752	3,521,903	3,521,903
Cumulative interest sensitivity gap	-28.62%	9.85%	9.85%	15.31%	16.68%	16.68%
Foreign Currency-denominated:						
Assets:						
Loans, net	2,149,194	1,242,188	3,391,382	787,563	290,311	4,469,256
Investment securities	353,935	103,163	457,098	367,019	328,107	1,152,225
Deposits in other banks, and Other instruments	975,254	1,298,272	2,273,527	5,948	6,117	2,285,592
Off-Balance debit accounts, Forwards Swaps	745,704	85,157	830,861	66,579	13,081	910,520
Total	4,224,087	2,728,781	6,952,868	1,227,109	637,616	8,817,594
Liabilities:	1,942,655	698,877	2,641,533	57,001	—	2,698,534

Demand and saving deposits						
Time deposits (1)	1,861,562	811,864	2,673,426	241,305	196,836	3,111,568
Interbank deposits received and Borrowings	319,942	71,747	391,689	85,729	128,408	605,827
Bonds and mortgage notes	41,670	45,628	87,298	179,046	7,777	274,120
Off-Balance credit accounts, Forwards Swaps	385,255	327,839	713,094	125,668	39,143	877,904
Total	4,551,084	1,955,956	6,507,039	688,749	372,164	7,567,952
Interest sensitivity gap	(326,996)	772,825	445,829	538,360	265,453	1,249,641
Cumulative interest sensitivity gap	(326,996)	445,829	445,829	984,189	1,249,641	1,249,641
Cumulative interest-earning assets	4,224,087	6,952,868	6,952,868	8,179,977	8,817,594	8,817,594
Cumulative interest sensitivity gap	-7.74%	6.41%	6.41%	12.03%	14.17%	14.17%
Total interest sensitivity gap	(833,164)	1,580,027	746,862	765,831	324,285	1,836,978
Cumulative interest sensitivity gap	(833,164)	746,862	746,862	1,512,693	1,836,978	1,836,978
Total interest-earning assets	5,992,733	4,016,289	10,009,022	1,622,708	707,767	12,339,497
Cumulative interest-earning assets	5,992,733	10,009,022	10,009,022	11,631,729	12,339,497	12,339,497
Cumulative interest sensitivity gap as a percentage of cumulative interest-earning assets	-13.90%	7.46%	7.46%	13.00%	14.89%	14.89%

(1) Includes severance indemnity deposits

(2) This table has been elaborated for administration on the bases of diverse assumptions, and is based on management figures, which do not necessarily conform to the figures on Credicorp Consolidated Financial Statements.

In addition to the static gap position, BCP employs a simulation analysis to measure the degree of short-term interest risk. Sensitivity analysis is performed to express the potential gains or losses in future earnings resulting from selected hypothetical changes in interest rates. Sensitivity models are calculated on a monthly basis using both actual balance sheet figures detailed by maturity reprising interval and interest yields or costs. Simulations are run using shocks of +/- 100 basis points on the interest rates to determine potential changes to future earnings.

The forward-looking simulation results reflect changes between a most likely to occur interest rate base case scenario. Interest rate scenarios are separately devised for U.S. Dollar- and Nuevos Soles-denominated rates. As of December 31, 2006, Credicorp's banking subsidiaries had a very short-term cumulative gap with US\$833.2 million more liabilities than assets reprising within three months. This represents 13.90% of cumulative interest-earning assets which changes to a positive cumulative gap with US\$746.9 million more assets than liabilities reprising within one year, or 7.46% of cumulative interest-earning assets.

Considering that the consensus in the market is for a continued generalized increase in interest rates, the base case scenario analyzes the effect on financial margins in the next 12 months of a 100 basis points increase in Nuevos Soles-denominated interest rates as well as in U.S. Dollar-denominated rates. The base case scenario shows an impact of these variations resulting, for the next 12 months, in a decrease of pre-tax net interest income of approximately US\$0.48 million, or 0.1% of net interest income in 2006, which is the outcome of a shorter reprising period for liabilities with respect to assets.

Gap simulation analysis has several shortcomings, one of which is its "static" nature, that is, it does not consider ongoing loan and deposit activity, and another of which is the inadequate treatment of individually negotiated loan and deposit rates, as in prime client cases, or the finer breakdown of rates applicable to different business areas. Furthermore, more than 50% of Credicorp's interest-bearing deposits can be unilaterally modified, causing difficulties in establishing the expected reprising period of these products in the simulations. Additionally, Credicorp considers within the Foreign Currency category not only U.S. Dollar-denominated transactions, but also the currency of its subsidiary in Bolivia, which may present different trends in certain periods but, due to its relative small value, do not significantly affect the results of the analysis.

Exchange Rate Sensitivity

Credicorp's market risk exposure to foreign currency exchange fluctuations is attributed to its net asset or net liability positions in currencies other than U.S. Dollars. Exchange rate risk management policies include nominal and stop-loss limits, approved by the Market Risk Committee, as well as VaR alerts reviewed on a daily basis, where excesses are immediately reported.

In a net liability position in Nuevos Soles, the translation gains are recognized when the exposure to the Nuevo Sol is weakened against the U.S. Dollar. In case such exposure is strengthened against the U.S. Dollar, a translation loss is recognized. On the other hand, in a net asset position, if the exposition of Nuevo Sol is weakened against the U.S. Dollar, a translation loss is recognized, if it has strengthened against the U.S. Dollar, a translation gain is recognized.

Earnings sensitivity is estimated by directly applying expected foreign currency devaluation or revaluation rates on the above net positions. The Nuevos Soles net asset position results in exchange gains whenever the Peruvian currency raises its value against the U.S. Dollar, while a devaluation would generate exchange losses. A 10% change in the Nuevo Sol exchange rate would generate a US\$4.6 million gain in case of devaluation (in net liability position in Nuevos Soles) or revaluation (in net asset position in Nuevos Soles), respectively. Also, a 10% change in the Nuevo Sol exchange rate would generate a US\$4.6 million loss in case of devaluation (in net asset position in Nuevos Soles) or revaluation (in net liability position in Nuevos Soles), respectively. Given the evolution of the exchange rate in past years, a significant devaluation scenario for the Nuevo Sol is very unlikely for the next 12 months, unless certain political instability scenarios generate such devaluation. See "Item 3. Key Information—(A) Selected Financial Data—Exchange Controls."

Considering foreign currency forward contracts, the Nuevos Soles exposure increases to a net asset position of US\$732.7 million at December 31, 2006, and a net asset position of US\$31.2 million in other currencies. See Note 26 to the Credicorp Consolidated Financial Statements.

The net asset position in other currencies different from Nuevo Sol is principally composed of Bolivian Bolivianos with a total of US\$31.2 million. Credicorp management expects that the exchange risk in this currency will be significant, due to the political, social and/or economic instability that may result from the policies adopted by the new Bolivian government. In particular, the nationalization of hydrocarbons, by the Bolivian government represents increased risks for all related activities.

As of December 31, 2006, Credicorp's total U.S. Dollar-denominated monetary assets were US\$8,208.4 million and its U.S. Dollar-denominated liabilities were US\$7,979.7 million, resulting in a net U.S. Dollar asset position of US\$228.6 million (US\$973.2 million at December 31, 2005). Of such amount, approximately 20% represented the net U.S. Dollar asset position of Credicorp's non-Peruvian subsidiaries that conduct most of their operations in U.S. Dollars. Credicorp considers its net U.S. Dollar asset position to be reasonable in view of the volume of its foreign currency activities and the environment in which it operates. Historically, in order to provide some protection from the combined effects of devaluation and inflation, Credicorp has followed the policy of maintaining the sum of its net U.S. Dollar assets, real estate assets and investments in equity securities at least equal to shareholders' equity.

Beginning in March 1999, BCP has segregated part of its regulatory capital to cover foreign exchange risk exposure and, since June 2000, to cover risk related to investments in equity shares, with the remaining used to cover credit risk. See "Item 4. Information on the Company—(B) Business Overview—(11) Supervision and Regulation—(ii) BCP—Capital Adequacy Requirements."

Derivatives Trading Activities

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

Except for foreign currency forward commitments and interest rate swaps, Credicorp does not enter into derivative transactions or options (in March 2006, currency swap operations were initiated and are expected to include forward rate agreement-FRAs). Foreign exchange forward contracts are agreements for future delivery of money market instruments in which the seller agrees to make delivery at a specified future date of an instrument, at a specified price or yield. Forward contracts are closely monitored and are also subject to nominal and stop-loss limits.

As of December 31, 2006, the nominal amount of outstanding forward contracts was approximately US\$1,153.2 million (US\$998.7 million as of December 31, 2005), with maturities for periods less than a year. All of those contracts were signed solely to serve customer needs. Interest rate swap operations at year-end 2006 amounted approximately to US\$543.0 million (US\$572.2 million in 2005). These contracts are recorded at fair value, recording both realized and unrealized gains and losses in the consolidated income statements. In addition, the cross currency swap operations amounted approximately to US\$48.9 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

(A) Material Defaults

Credicorp and its subsidiaries have never defaulted on any of its debt or been forced to reschedule any of its obligations.

(B) Dividend Arrearages and Delinquencies

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

(A) Disclosure Controls and Procedures

Credicorp management, with the participation of and under the supervision of Credicorp's principal executive officer and principal financial officer, has evaluated the effectiveness of the design and operation of Credicorp's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2006. Based on that evaluation, Credicorp management, its principal executive officer and its principal financial officer have

concluded that Credicorp's disclosure controls and procedures are effective in ensuring that information required to be disclosed by Credicorp in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in U.S. Securities and Exchange Commission (the "SEC") rules and forms.

135

(B) Management's Annual Report on Internal Control over Financial Reporting

Management's Annual Report on Internal Control Over Financial Reporting

The Board of Directors and management of Credicorp Ltd. and Subsidiaries (Credicorp) are responsible for establishing and maintaining adequate internal control over financial reporting. Credicorp's internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRS) including a reconciliation of net profit and equity attributable to Credicorp shareholders to U.S. generally accepted accounting principles (U.S GAAP).

Credicorp's internal control over financial reporting includes those policies and procedures that:

- (i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;
- (ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation and fair presentation of financial statements, and the receipts and expenditures of the company are being made only in accordance with authorizations of Credicorp management; and
- (iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Credicorp management assessed the effectiveness of Credicorp's internal control over financial reporting as of December 31, 2006 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management believes that, as of December 31, 2006, Credicorp's internal control over financial reporting was effective. Credicorp management also found no material weaknesses in Credicorp internal control over financial reporting and therefore no corrective actions were taken.

Management's assessment of the effectiveness of Credicorp's internal control over financial reporting as of December 31, 2006 has been audited by Medina, Zaldívar, Paredes & Asociados, (member firm of Ernst & Young Global), Credicorp's independent registered public accounting firm, as stated in their report included herein, and expressed unqualified opinions on management's assessment and on the effectiveness of Credicorp's internal control over financial reporting as of December 31, 2006.

/s/ DIONISIO ROMERO

By: /s/ WALTER BAYLY

Name: Dionisio Romero
Title: Chief Executive Officer

Name: Walter Bayly
Title: Chief Financial and Accounting Officer

July 25, 2007

(C) **Attestation Report of the Registered Public Accounting Firm**

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To the Board of Directors and Shareholders of Credicorp Ltd.

We have audited management's assessment, included in the Management's Report on Internal Control Over Financial Reporting, that Credicorp Ltd. and Subsidiaries (Credicorp) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (the COSO criteria). Credicorp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express and opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining and understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the company; (2) provide reasonable assurance that transaction are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting (continued)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Credicorp Ltd. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Credicorp Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated balance sheets of Credicorp Ltd and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated June 27, 2007, expressed an unqualified opinion on those Consolidated Financial Statements.

Countersigned by:

Juan Paredes
C.P.C. Register N°22220
Lima, Peru,
July 25, 2007

(D) Changes in Internal Control over Financial Reporting

During the period covered by this Annual Report, no changes were made to Credicorp's internal controls over financial reporting that have materially affected, or are likely to materially affect, internal controls over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Credicorp's Board of Directors has determined that Mr. Luis Enrique Yarur is an audit committee financial expert, as that term is defined in the instructions to Item 16A of Form 20-F. Credicorp Board of Directors has determined that Mr. Yarur is "independent" as defined in Rule 10A-3 under the Exchange Act and in Section 303A.02 of The NYSE Listed Company Manual. Mr. Yarur is a businessman with an undergraduate degree in law and graduate degrees in economics and management. He became a Director of Credicorp on October 31, 2002. Mr. Yarur is Chairman of the Board of Banco de Crédito e Inversiones in Chile, and a member of the boards of directors of various other Chilean companies.

ITEM 16B. CODE OF ETHICS

Credicorp has adopted a code of ethics (*Código de Etica*) that is applicable to the Board of Directors, including Credicorp's Chief Executive Officer, Chief Financial and Accounting Officer and the other principal executive officers, as well as to all other employees. In addition, Credicorp has adopted a code of ethics for professionals with financial responsibility (*Código de Etica Para Profesionales con Responsabilidad Financiera*) applicable to employees with financial management responsibilities. Credicorp's code of ethics and code of ethics for professionals

with financial responsibility are available on the Corporate Governance section of its web site at <http://www.credicorpnet.com>.

138

ITEM 16C.**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table sets forth for each of the years indicated, the fees paid to Credicorp's independent auditor Medina, Zaldívar, Paredes & Asociados, members of Ernst & Young Global, for the audit of Credicorp's financial statements for the years ended December 31, 2004, 2005 and 2006, respectively. The Audit Committee recommends the appointment of the independent auditor every fiscal year, and the auditor is appointed at the Annual General Shareholders' Meeting.

	2004	Years ended December 31, 2005	2006
		<i>(U.S. Dollars in thousands)</i>	
Audit	US\$1,132	US\$1,293	US\$1,779
Audit - Related	14	—	61
Tax	7	21	15
All Other	134	557	29
Total	US\$1,287	US\$1,871	US\$1,884

Audit fees correspond to audit services performed (i) in the review of Credicorp's consolidated financial statements, (ii) establishing the procedures that the independent auditor needs to perform in order to form an opinion about Credicorp's consolidated financial statements, and (iii) to comply with the statutory requirements applicable to Credicorp's subsidiaries. Audit fees also include expenses related to the audit work and comfort letters in connection with the issuance of long term debt. In 2006, Credicorp's independent auditors performed tasks related to the delivery of a comfort letter in connection with the issuance of long term debt by BCP with fees accounting to US\$100,000. All fees were approved by the Audit Committee.

Audit-related fees relate to services that are similar to the execution of an audit or a review of Credicorp's financial statements and which are traditionally performed by the independent auditor. Such audit-related services include; assistance in the understanding of new accounting and financial rules established by regulatory entities; audit related procedures on accounting matters previously agreed with Credicorp management; and special audit reviews of internal control procedures. Audit-related fees during 2006 in the amount of US\$58,000 included fees in connection with a "due diligence" task related to the acquisition of AFP Unión Vida performed by Credicorp's independent auditors. The fees were approved by the Audit Committee.

Tax fees relate to tax services which include all services performed by Credicorp's independent auditor's tax personnel, except those services specifically related to the review and preparation of Credicorp's financial statements, and consisted principally of tax compliance and advisory services approved by the Audit Committee.

All other fees include mainly some expenses related to training courses prepared for the insurance company by the independent auditors.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee must approve all of the services the independent auditors provide as part of its responsibility in supervising their work. There are two types of approvals. The Audit Committee grants a “general approval” in advance to a list of services that the independent auditor may provide without further approval required by the Audit Committee. A general approval is valid for 12 months from the date of approval unless the Audit Committee determines a different period of validity should apply. The Audit Committee also grants “specific approval” for services that do not have general approval on a case-by-case basis. All of the services that do not have general approval need specific approval from the Audit Committee before any agreement is signed with the independent auditor to provide such services. Any service that exceeds approved costs or budgets will need specific approval from the Audit Committee. When considering granting any type of approval, the Audit Committee considers whether the requested services are consistent with the SEC’s rules regarding the independence of the independent auditors.

The Audit Committee supervises the execution of the independent audit services as necessary. It approves, when necessary, any modification in the terms, conditions, fees and extent of the audit services. The Audit Committee may give a general approval for other audit services where the independent auditor is in the best position to provide those services. Such services typically include: audit services required by regulations, financial audits for Credicorp’s subsidiaries or affiliates, and services associated with the presentation of documents to the SEC or other documents published in relation to the trading of Credicorp’s shares.

The Audit Committee may award a general approval to audit-related services if its members consider that these services do not negatively affect the integrity of the independent auditor and are consistent with the rules of the SEC.

The Audit Committee requires that all tax services provided by the independent auditors be brought to its approval, following the rules promulgated by the SEC. The Audit Committee may grant a specific approval to other services provided by the independent auditor so long as they do not impair the integrity of the independent auditor and are allowed by rules issued by the SEC concerning auditor independence.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

PART III**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Credicorp Consolidated Financial Statements and the report of independent public accounting firm in connection therewith are filed as part of this Annual Report on form 20-F, as noted below:

	Page
Credicorp Consolidated Financial Statements	F-1
Index to Financial Statements and Schedules	
Index to Financial Statements	F-2
Report of Medina, Zaldívar, Paredes & Asociados, members of Ernst & Young Global, Independent Public Accountants	F-3
Consolidated Balance Sheets as of December 31, 2006 and 2005	F-5
Consolidated Income Statements for the Three Years in the Period Ended December 31, 2006	F-7
Consolidated Statements of Changes in Equity for the Three Years in the Period Ended December 31, 2006	F-9
Consolidated Cash Flow Statements for the Three Years in the Period Ended December 31, 2006	F-11
Notes to Consolidated Financial Statements	F-13

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

ITEM 19.

EXHIBITS

(a) Index to Exhibits

1.1	Bye-Laws of Credicorp Ltd., incorporated herein by reference to Exhibit 1.1 to Credicorp's Annual Report on Form 20-F dated June 30, 2005
1.2	Memorandum of Association of Credicorp Ltd., incorporated herein by reference to Exhibit 1.2 to Credicorp's Annual Report on Form 20-F dated June 27, 2003
8	List of Subsidiaries, incorporated herein by reference to Exhibit 8 to Credicorp's Annual Report on Form 20-F dated June 27, 2003
12.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the U.S. Sarbanes-Oxley Act of 2002
12.2	Certification by the Chief Financial and Accounting Officer Pursuant to Section 302 of the U.S. Sarbanes-Oxley Act of 2002
13.1	Certification by the Chief Executive Officer Pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
13.2	Certification by the Chief Financial and Accounting Officer Pursuant to Section 906 of the U.S. Sarbanes-Oxley Act of 2002
142	

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CREDICORP LTD.

By: /s/ WALTER BAYLY

Name: Walter Bayly

Title: Chief Financial and Accounting Officer

Dated: July 25, 2007

143

CREDICORP CONSOLIDATED FINANCIAL STATEMENTS

Credicorp Ltd. and Subsidiaries

Consolidated financial statements as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, together with the Report of Independent Registered Public Accounting Firm

F-1

Credicorp Ltd. and Subsidiaries

Consolidated financial statements as of December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006, together with the Report of Independent Registered Public Accounting Firm

Content

Report of Independent Registered Public Accounting Firm

Consolidated financial statements

Consolidated balance sheets	F-4
Consolidated income statements	F-6
Consolidated statements of changes in shareholders' equity	F-8
Consolidated cash flows statements	F-10
Notes to the consolidated financial statements	F-12

F-2

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Credicorp Ltd.

We have audited the accompanying consolidated balance sheets of Credicorp Ltd. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Our audits include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Credicorp Ltd. and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with International Financial Reporting Standards (IFRS), which differ in certain respects from United States generally accepted accounting principles (see Note 29, as restated).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the effectiveness of Credicorp Ltd's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated June 27, 2007 expressed an unqualified opinion thereon.

Countersigned by:

Juan Paredes
C.P.C. Register N° 22220
Lima, Peru,
June 27, 2007.

Credicorp Ltd. and Subsidiaries

Consolidated balance sheets

As of December 31, 2006 and 2005

	Note	2006 US\$(000)	2005 US\$(000)
Assets			
Cash and due from banks:	4		
Non-interest bearing		474,859	364,947
Interest bearing		2,258,671	2,295,868
		2,733,530	2,660,815
Investments:			
Trading securities	5	45,136	60,785
Investments available-for-sale	6	3,450,711	2,810,705
		3,495,847	2,871,490
Loans, net:			
Loans, net of unearned income	7	5,927,101	5,014,255
Allowance for loan losses		(190,278)	(197,495)
		5,736,823	4,816,760
Premiums and other policies receivable		61,279	57,301
Accounts receivable from re-insurers and co-insurers	12	35,181	35,288
Property, furniture and equipment, net	8	255,478	248,299
Due from customers on acceptances		45,129	45,423
Assets seized, net	9	29,427	39,373
Intangible assets and goodwill, net	10	215,647	58,217
Other assets	11	273,188	203,109
Total assets		12,881,529	11,036,075

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

Consolidated balance sheets (continued)

	Note	2006 US\$(000)	2005 US\$(000)
Liabilities and Equity			
Deposits and obligations:	13		
Non-interest bearing		1,989,564	1,671,621
Interest bearing		6,849,427	5,421,807
		8,838,991	7,093,428
Due to banks and correspondents	14	570,989	1,023,371
Bankers' acceptances outstanding		45,129	45,423
Accounts payable to re-insurers and co-insurers	12	25,134	36,580
Technical, insurance claims reserves and reserves for unearned premiums	15	628,221	546,094
Borrowed funds	14	370,612	280,000
Bonds and subordinated notes issued	16	512,572	429,224
Other liabilities	11	356,113	290,000
Total liabilities		11,347,761	9,744,120
Equity			
Capital and reserves attributable to Credicorp's equity holders:	17		
Capital stock		471,912	471,912
Treasury stock		(73,107)	(73,107)
Capital surplus		140,693	140,693
Reserves		479,902	269,527
Other reserves		147,409	83,302
Retained earnings		230,013	298,113
		1,396,822	1,190,440
Minority interest		136,946	101,515
Total equity		1,533,768	1,291,955
Total liabilities and equity		12,881,529	11,036,075

The accompanying notes are an integral part of these consolidated balance sheets.

Credicorp Ltd. and Subsidiaries

Consolidated income statements

For the years ended December 31, 2006, 2005 and 2004

	Note	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Interest and dividend income				
Interest on loans		537,671	447,392	426,537
Interest on deposits in banks		93,886	37,127	20,146
Interest from trading securities and investments available-for-sale		135,705	117,242	81,276
Dividend income		9,140	3,553	2,256
Other interest income		5,600	7,118	12,627
Total interest and dividend income		782,002	612,432	542,842
Interest expense				
Interest on deposits and obligations		(189,552)	(119,138)	(95,965)
Interest on bonds and subordinated notes issued		(25,282)	(24,332)	(27,651)
Interest on due to banks and correspondents and borrowed funds		(56,634)	(20,288)	(16,366)
Other interest expense		(12,010)	(9,401)	(20,316)
Total interest expense		(283,478)	(173,159)	(160,298)
Net interest and dividend income		498,524	439,273	382,544
Provision for loan losses	7(f)	4,243	6,356	(16,131)
Net interest and dividend income after provision for loan losses		502,767	445,629	366,413
Other income				
Banking services commissions		243,778	206,163	201,474
Net gain on foreign exchange transactions		41,638	29,286	24,165
Net gain on sales of securities		27,281	8,965	10,135
Other	23	26,197	21,571	8,105
Total other income		338,894	265,985	243,879

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

Consolidated income statements (continued)

	Note	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Insurance premiums and claims				
Net premiums earned	21	251,261	218,955	192,672
Net claims incurred for property and casualty insurance contracts	22	(46,587)	(42,569)	(34,791)
Net claims incurred for life and health insurance contracts	22	(139,935)	(132,931)	(119,534)
Total premiums earned less claims		64,739	43,455	38,347
Other expenses				
Salaries and employees benefits		(303,332)	(236,347)	(202,729)
Administrative expenses		(172,304)	(138,294)	(153,096)
Depreciation and amortization	8(a) and 10(a)	(50,317)	(38,728)	(41,742)
Provision for assets seized	9(b)	(6,387)	(16,959)	(14,639)
Merger expenses	2(a) and (d)	(5,706)	-	(3,742)
Goodwill amortization	10(b)	-	-	(4,853)
Other	23	(52,718)	(46,745)	(42,869)
Total other expenses		(590,764)	(477,073)	(463,670)
Income before translation result and income tax		315,636	277,996	184,969
Translation result		15,216	(9,597)	2,040
Income tax	18(b)	(83,587)	(73,546)	(45,497)
Net income		247,265	194,853	141,512
Attributable to:				
Equity holders of Credicorp		230,013	181,885	130,747
Minority interest		17,252	12,968	10,765
		247,265	194,853	141,512
Basic and diluted earnings per share for net income attributable to equity holders of Credicorp (in United States dollars)				
	24	2.88	2.28	1.64

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

Credicorp Ltd. and Subsidiaries

Consolidated statements of changes in equity
For the years ended December 31, 2006, 2005 and 2004

	Attributable to the equity holders of Credicorp									
	Number of shares issued, note 24 (In thousands of units)	Capital stock	Treasury stock	Capital surplus	Reserves	Other reserves	Retained earnings	Total	Minority interest	Total net equity
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Balances as of										
January 1st, 2004	94,382	471,912	(73,177)	140,500	269,527	20,750	81,218	910,730	72,841	983,571
Changes in equity for 2004 -										
Net unrealized gains from investments available-for-sale, note 6(c)	-	-	-	-	-	56,746	-	56,746	9,762	66,508
Transfer of net realized gain the operations results, net of realized gains, note 6(c)	-	-	-	-	-	(1,365)	-	(1,365)	53	(1,312)
Income for the year recognized directly in equity	-	-	-	-	-	55,381	-	55,381	9,815	65,196
Net income	-	-	-	-	-	-	130,747	130,747	10,765	141,512
Total recognized income for the period	-	-	-	-	-	55,381	130,747	186,128	20,580	206,708
Decrease in treasury stock	-	-	70	193	-	-	-	263	-	263
Cash dividends, note 17(d)	-	-	-	-	-	-	(31,900)	(31,900)	-	(31,900)
Dividends of subsidiaries and other	-	-	-	-	-	-	(24)	(24)	(8,168)	(8,192)
Balances as of										
December 31, 2004	94,382	471,912	(73,107)	140,693	269,527	76,131	180,041	1,065,197	85,253	1,150,450
Changes in equity for 2005 -	-	-	-	-	-	7,121	-	7,121	4,764	11,885

Net unrealized gain from investments available-for-sale, note 6(c)										
Transfer of net realized gain the operations results, net of realized gains, note 6(c)	-	-	-	-	-	(1,572)	-	(1,572)	(165)	(1,737)
Net gain on cash flow hedge, note 20(d)	-	-	-	-	-	1,622	-	1,622	-	1,622
Income for the year recognized directly in equity	-	-	-	-	-	7,171	-	7,171	4,599	11,770

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

Consolidated income statements (continued)

	Attributable to the equity holders of Credicorp									
	Number of shares issued, note 24 (In thousands of units)	Capital stock	Treasury stock	Capital surplus	Reserves	Other reserves	Retained earnings	Total	Minority interest	Total net equity
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Net income	-	-	-	-	-	-	181,885	181,885	12,968	194,853
Total recognized income for the period	-	-	-	-	-	7,171	181,885	189,056	17,567	206,623
Cash dividends, note 17(d)	-	-	-	-	-	-	(63,810)	(63,810)	-	(63,810)
Dividends of subsidiaries and other	-	-	-	-	-	-	(3)	(3)	(1,305)	(1,308)
Balances as of December 31, 2005 carried forward	94,382	471,912	(73,107)	140,693	269,527	83,302	298,113	1,190,440	101,515	1,291,955
Changes in equity for 2006 -										
Net unrealized gain from investments available-for-sale, note 6(c)	-	-	-	-	-	69,411	-	69,411	20,728	90,139
Transfer of net realized gain the operations results, net of realized gains, note 6(c)	-	-	-	-	-	(6,620)	-	(6,620)	(379)	(6,999)
Net gain on cash flow hedge, note 20(d)	-	-	-	-	-	1,316	-	1,316	-	1,316
Income for the year recognized directly in equity						64,107	-	64,107	20,349	84,456
Net income	-	-	-	-	-	-	230,013	230,013	17,252	247,265
Total recognized income for the period	-	-	-	-	-	64,107	230,013	294,120	37,601	331,721
Transfer of retained earnings	-	-	-	-	210,375	-	(210,375)	-	-	-

to reserves, note
17(c)

Cash dividends, note 17(d)	-	-	-	-	-	-	(87,738)	(87,738)	-	(87,738)
Dividends of subsidiaries and other	-	-	-	-	-	-	-	-	(2,170)	(2,170)
Balances as of December 31, 2006 carried forward	94,382	471,912	(73,107)	140,693	479,902	147,409	230,013	1,396,822	136,946	1,533,768

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

F-9

Credicorp Ltd. and Subsidiaries

Consolidated cash flows statements

For the years ended December 2006, 2005 and 2004

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Cash flows from operating activities			
Net income	247,265	194,853	141,512
Add (deduct)			
Provision for loan losses	(4,243)	(6,356)	16,131
Depreciation and amortization	50,317	38,728	41,742
Amortization of goodwill	-	-	4,853
Provision for assets seized	6,387	16,959	14,639
Provision for sundry risks, note 23	6,461	5,567	9,819
Deferred income tax, note 18(b)	(4,786)	(11,502)	(6,325)
Net gain on securities available-for-sale	(27,281)	(8,965)	(10,135)
Loss (gain) on sales of property, furniture and equipment, note 23	(169)	(1,875)	4,525
Translation result	(15,216)	9,597	(2,040)
Purchase (sale) of trading securities, net	15,649	22,843	(3,788)
Purchase of loan portfolio, note 2(b)	-	(353,769)	-
Changes in assets and liabilities:			
Increase (decrease) in loans, net	(871,970)	90,521	(142,316)
Decrease (increase) in other assets	(104,091)	(15,062)	52,049
Increase in deposits and obligations, net	1,632,960	648,648	296,094
Increase (decrease) in due to banks and correspondents, net	(455,381)	540,824	130,369
Increase (decrease) in other liabilities, net	114,717	149,920	139,626
Net cash provided by operating activities	590,619	1,320,931	686,755
Cash flows from investing activities			
Acquisition of subsidiaries net of cash received, notes 2(a) and (d)	(140,085)	-	(4,900)
Disposal of subsidiaries, net of cash disposed, note 2(c)	-	17,977	-
Net purchase of investments available-for-sale	(433,702)	(712,879)	(410,693)
Purchase of property, furniture and equipment	(43,973)	(48,769)	(41,087)
Sales of property, furniture and equipment	7,546	19,448	7,788
Net cash used in investing activities	(610,214)	(724,223)	(448,892)

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

Consolidated cash flows statements (continued)

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Cash flows from financing activities			
Issuance of bonds and subordinated notes	167,247	74,985	35,235
Redemption of bonds and subordinated notes	(91,925)	(57,469)	(30,719)
Sales of treasury stocks	-	-	263
Increase in borrowed funds	90,612	348,500	140,500
Payments of borrowed funds	-	(68,500)	(114,054)
Cash dividends	(87,738)	(63,810)	(31,900)
Net cash provided by (used in) financing activities	78,196	233,706	(675)
Translation gain (loss) on cash and cash equivalents	14,114	(15,060)	(6,787)
Net increase in cash and cash equivalents	72,715	815,354	230,401
Cash and cash equivalents at the beginning of the year	2,660,815	1,845,461	1,615,060
Cash and cash equivalents at the end of the year	2,733,530	2,660,815	1,845,461
Supplementary cash flows information:			
Cash paid during the year for -			
Interest	265,838	171,495	158,414
Income tax	96,284	47,760	43,866
Cash received during the year for -			
Interest	810,266	628,508	554,205

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

Credicorp Ltd. and Subsidiaries

Notes to the consolidated financial statements
As of December 31, 2006 and 2005

1. Operations

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

Credicorp Ltd., through its banking and non-banking subsidiaries, provides a wide range of financial services and products throughout Peru and in selected international markets. At December 31, 2006, the major subsidiary of the Group is Banco de Crédito del Perú (hereinafter “BCP” or the “Bank”), a Peruvian universal bank. The address of Credicorp’s main office is Claredon House 2 Church Street Hamilton, Bermuda; likewise, the Management and its administration offices are located in Calle Centenario N°156, La Molina, Lima, Peru.

Credicorp is listing in both Lima and the New York Stock Exchanges.

The consolidated financial statements as of and for the year ended December 31, 2005 have been approved in the General Shareholders’ Meeting dated March 31, 2006. The accompanying consolidated financial statements as of and for the year ended December 31, 2006, have been approved by the Board of Directors Meeting dated February 28, 2007 and by the General Shareholders’ Meeting dated March 30, 2007, without modifications.

2. Business developments

During 2006 and 2005, the Group incorporated new companies; acquired subsidiaries recorded as business combinations, according to the guidelines of IFRS 3, and sold subsidiaries. The description of such transactions are described below:

(a) Incorporation of a Private Pension Fund Management and acquisition of AFP Unión Vida S.A. - Credicorp’s Board of Directors Meeting held on November 25, 2004, approved that its subsidiary Grupo Crédito S.A. will take part, as the principal shareholder, in the start-up of a new private pension fund management company, Administradora de Fondos de Pensiones - AFP, Prima AFP S.A. (hereinafter “Prima AFP”), which was incorporated on March 4, 2005.

On August 24, 2006, Credicorp, through its subsidiary Prima AFP, acquired from Grupo Santander Perú S.A., the shares that this Company had in AFP Unión Vida S.A. (a pension fund management company that operates in Peru), which represented 99.97 of its capital stock and made a Public Offering for the minority shareholders in order to acquire the remaining 0.03 percent of the capital stock. The amount paid for the purchase amounted to approximately US\$ 141.5 million.

Notes to the consolidated financial statements (continued)

At the General Shareholder's Meeting of Prima AFP, held on September 6, 2006, the merger with AFP Unión Vida S.A. was approved, with effective date of December 1st, 2006.

The acquisition of AFP Unión Vida S.A. was recorded using the purchase method, as required by IFRS 3, Business Combinations. The assets and liabilities were recorded at their estimated market values at the acquisition date and the intangible assets acquired were identified. The book value and the fair values for the identified assets and liabilities of the entity at acquisition date were as follows:

	Book value of the entity acquired	Fair value recognition	Fair value of the entity acquired
	US\$(000)	US\$(000)	US\$(000)
Assets -			
Cash and cash equivalents	1,428	-	1,428
Restricted mutual fund	32,265	-	32,265
Client relationships	-	88,378	88,378
Other Intangibles	3,424	9,603	13,027
Property, furniture and equipment	2,060	-	2,060
Goodwill	-	49,047	49,047
Other assets	5,605	-	5,605
Liabilities -			
Trade accounts payable	4,688	-	4,688
Other accounts payable	5,352	-	5,352
Other liabilities	7,433	32,824	40,257
Net acquired assets	27,309	114,204	141,513 (*)

(*) Cash paid for the acquisition and related direct cost

The intangible assets recognized correspond mainly to "client relationships" and it has an assigned useful life of 20 years. Management of the Group has valued these intangible assets using the method of "Multiple Excess Earnings Method". The goodwill generated is attributed to the high profitability of the acquired business and the significant synergies that are expected to be obtained after the acquisition of AFP Union Vida by the Group, note 10(b).

In January 2007, the final purchase price determination was completed with the result of the arbitration proceeding between both parties. As result the Group received a reimbursement of approximately US\$4.5 million, which have been record as a reduction of the goodwill.

The acquired business (AFP Union Vida S.A.) has contributed with gross revenues to the Group of approximately US\$8.0 million and a net loss of approximately US\$0.4 million for the period between the acquisition date (August 24, 2006) and December 31, 2006. If this acquisition had been completed at January 1, 2006 and 2005, respectively, the gross revenues (pro-forma) of the Group would had been increase by US\$27.5 and US\$49.9 million, respectively, the net income attributable to Credicorp's shareholders (pro-forma) would have been increase by approximately US\$2.7 and US\$15.6, million and the net earning per share (pro-forma), basic and diluted attributable to Credicorp's shareholders would have been increased by US\$0.04 and US\$0.20, respectively. This information is presented solely for comparison purposes and it does not mean to be an indicator of the results that would have been produced in the case the acquisition had occurred at the beginning of the period or neither be an indicator of future possible consolidated results.

Notes to the consolidated financial statements (continued)

As of December 31, 2006, the number of participants in the fund managed by Prima, including those that come from AFP Union Vida, is 997,963 (51,838 as December of 31, 2005, without considering those of AFP Union Vida) and the fair value of the funds under its administration amounts to approximately US\$4,163.4 million (US\$252.7 million as December of 31, 2005), note 3(b) (iv).

(b) Acquisition of the loan portfolio of Bank Boston N.A. Peru Subsidiary -

On January 2005, the BCP and the Bank of America, principal shareholders of United States Fleet Boston agreed to buy-sale the loans portfolio of the Bank Boston N.A. Peruvian branch and the loan portfolio of Peruvians in United States Fleet Boston N.A., registering this operation at the acquisition cost. BCP paid in cash approximately US\$353.8 million for the loan portfolio, which comprised commercial loans, mortgage and leasing operations. The acquisition date of the portfolio was January 24, 2005.

(c) Sale of Banco Tequendama S.A. -

In March 2005, after the approval of the Colombian authorities, the Group completed the sale transaction of its 99.99 percent interest in its subsidiary Banco Tequendama S.A., for approximately US\$32.5 million. The effective date for this transaction was January 1st, 2005 and as result of the transaction, the Group did not record any significant gain. In the year 2004, the subsidiary operated in the banking segment and contributed US\$1.9 million to net income.

(d) Acquisition of Corporación Novasalud Perú S.A. -

In March 2004, El Pacífico Peruano-Suiza Compañía de Seguros y Reaseguros S.A.A. (hereinafter "PPS"), a subsidiary of the Group, acquired a 100 percent interest in Corporación Novasalud S.A., proprietary of a 100 percent of Corporación Novasalud Perú S.A. - Entidad Prestadora de Salud (hereinafter "Novasalud EPS"). The amount paid for this purchase amounted to approximately US\$6.5 million, generating goodwill of approximately US\$5.9 million, note 10(b). On March, 2004, the company was merged with Pacífico S.A. Entidad Prestadora de Salud.

F-14

Notes to the consolidated financial statements (continued)

3. Significant accounting policies

Significant accounting principles used in the preparation of Credicorp's consolidated financial statements are set out below.

(a) Basis of presentation and use of estimates -

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, unless otherwise stated.

The financial instruments of the Group, assets and liabilities, are recorded at the amortized cost; except for:

· The trading securities, the derivatives and the financial instruments with embedded derivatives (see the paragraphs (h) and (u) below), which are recorded as financial assets at their fair value through profit or loss.

· The investments available-for-sale, as it is indicated in the paragraph (h) below.

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses and disclosure of significant events in notes to the consolidated financial statements.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. Actual results could differ from those estimates. The most significant estimates comprised in the accompanying consolidated financial statements are related to the computation of the allowance for loan losses, the measurement of the financial instruments, the technical reserves for claims and premiums, the provision for assets seized and the valuation of derivatives. The accounting criteria used for each of these items are described below.

The accounting policies adopted are consistent with those of the previous year, except that the Group has adopted those new IFRS and revised IAS mandatory for years beginning on or after January 1st, 2005. The adoption of the new and revised standards did not have a significant effect in the consolidated financial statements of Credicorp and, as result, it has not been necessary to amend the comparative figures. In summary:

- IAS 1 (revised in 2003) has affected mainly the presentation of minority interest as part of the net equity.
- IAS 8, 10, 16, 17, 27, 28, 32, 33 (all revised in 2003) and IAS 39 (revised in 2004) had no material effect on the Group's policies.

F-15

Notes to the consolidated financial statements (continued)

· IAS 21 (revised in 2003) had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as used in previous years.

· IAS 24 (revised in 2003) has affected the identification of related parties and other related-party disclosures.

· The adoption of IFRS 2 had no material effect for the consolidated financial statements.

· The adoption of IFRS 3, IAS 36 (revised in 2004) and IAS 38 (revised in 2004) resulted in a change in the accounting policy for goodwill. In accordance with the provisions of IFRS 3, see paragraph (m) below:

(i) The Group ceased the amortization of goodwill from January 1st, 2005.

(ii) Accumulated amortization as of December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

(iii) From the year ended December 31, 2004 onwards, goodwill is tested annually for impairment.

· The adoption of IFRS 4 does not require significant changes in the Group's accounting policies.

· The Group has reassessed the useful lives of its intangible assets in accordance with the provision of IAS 38 (revised in 2004). No adjustment resulted from this reassessment.

(b) Consolidation -

Subsidiaries -

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies. This is generally evidenced by a shareholding of more than one half of the voting rights.

Subsidiaries are fully consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. The consolidated financial statements include the assets, liabilities, income and expenses of Credicorp and its Subsidiaries. Inter-company transactions between Group Companies as balances, gains or losses are eliminated. The unrealized gains and losses between companies from the Group are eliminated, except for the losses that indicate an impairment in the value of the asset transferred.

Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the Group and the IFRS.

F-16

Notes to the consolidated financial statements (continued)

The Group uses the purchase method of accounting to register the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets and intangible assets acquired is recorded as goodwill. If the acquisition cost is lower than the fair value of the net asset of the acquired subsidiary, the difference is recognized directly in the consolidated income statement.

Assets in custody or managed by the Group, the investment funds and the pension funds managed by the Group, are not part of the consolidated financial statement of the Group, note 3(w).

The net equity and the net income attributable to the minority interest are shown separately on the consolidated balance sheets and income statements.

Associates -

Associates are all the entities over which the Group has significant influence but not control. Generally investment in these entities represents shareholding between 20 and 50 percent of the voting rights. The investments in associates are recognized initially at cost and then are accounted for by the equity method. The Group does not maintain a significant investment in associates; therefore these investments are recorded in the caption "Other assets" in the consolidated balance sheets and in the caption "Other income" of the consolidated income statements.

Minority interest -

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

Notes to the consolidated financial statements (continued)

The companies that comprise the Group as of December 31, 2006 and 2005, with an indication of the percentage owned directly and indirectly by Credicorp as of those dates, as well as other relevant information, based on the financial statements in accordance with IFRS and before the eliminations for consolidation, except for the elimination of Credicorp's treasury shares and the related dividends, are as follows:

Entity	Percentage of participation		Assets		Liabilities		Equity		Net income (loss)	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	%	%	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Banco de Crédito del Perú and Subsidiaries (i)	97.24	96.98	10,802,737	9,262,352	9,838,881	8,402,202	963,856	860,150	247,756	184,156
Atlantic Security Holding Corporation and Subsidiaries (ii)	100.00	100.00	1,320,535	1,052,386	1,200,170	949,757	120,365	102,629	15,402	13,483
El Pacífico Peruano-Suiza Compañía de Seguros y Reaseguros and Subsidiaries (iii)	75.72	75.72	1,002,358	833,573	712,430	613,978	289,928	219,595	59,087	13,117
Grupo Crédito S.A. and Subsidiaries (iv)	99.99	99.99	314,540	61,832	115,702	4,877	198,838	56,955	(12,380)	(5,491)
CCV Inc. (v)	99.99	99.99	-	-	-	-	-	-	-	(244)
CCR Inc. (v)	99.99	99.99	382,930	282,124	380,000	280,000	2,930	2,124	121	(197)
Credicorp Securities Inc. (vi)	99.99	99.99	1,503	1,019	18	21	1,485	998	487	203

(i) Banco de Crédito (BCP) is a universal bank, incorporated in Peru in 1889, authorized to engage in banking activities by the Superintendence of Banking, Insurance and AFP (SBS), the Peruvian banking, insurance and AFP authority. On November 2006, Credicorp acquired equivalent to 0.25 percent of BCP shares owned by minority interest. See (iii) below.

(ii) Atlantic Security Holding Corporation (ASHC) is incorporated in the Cayman Islands. Its main activity is to invest in the capital stock of companies. Its most significant subsidiary is Atlantic Security Bank (ASB). ASB is also incorporated in the Cayman Islands and began operations on December 1981, carrying out its activities through branches and offices in Grand Cayman and the Republic of Panama, its main activity is private and institutional banking and trustee administration.

Notes to the consolidated financial statements (continued)

- (iii) El Pacífico Peruano-Suiza Compañía de Seguros y Reaseguros (PPS) is a Peruvian corporation, whose main activity is the issuance and administration of insurance for property and casualty and related activities, and also provides insurance for life, health and personal accidents. Its main subsidiaries are El Pacífico Vida Compañía de Seguros y Reaseguros S.A. and Pacífico S.A. Entidad Prestadora de Salud (EPS), in which maintain a share of 61.99 percent and 100.00 percent, respectively. On November 2006, PPS sold to Credicorp 1.02 percent of BCP shares that maintained to that date, generating a goodwill for the purchase of the corresponding percentage of minority interest (0.25 percent) amounted to approximately US\$ 7.2 million, note 10(b).
- (iv) Grupo Crédito S.A. is a company incorporated in Peru on February 1987, whose main activity is to invest in listed and not listed securities in Peru. Since 2005, Group Crédito incorporated Prima AFP, a new subsidiary engaged in fund management activities. On August, 2006, Prima AFP acquired 99.97 percent of the representative capital shares of AFP Unión Vida S.A., which was merged on December 2006, note 2(a). As of December 31, 2006, Prima AFP total assets amount approximately US\$233.9 million, liabilities for US\$115.4 million and a net loss of US\$20.7 million (US\$18.3 million, US\$2.8 million and US\$7.6 million, respectively, as of December 31, 2005). Additionally, the Company owns 100.00 percent of the shares of Soluciones en Procesamiento S.A. (Servicorp), an entity specialized in collection services.
- (v) CCV Inc. and CCR Inc., are special purposes entities incorporated in Bahamas in 2001, whose main activity is to manage the loans granted to BCP from foreign financial entities, note 14(b). These loans are collateralized by transactions realized by the Bank.
- (vi) Credicorp Securities Inc., an entity incorporated in the United States of America on January 2003, whose main activity is to be engaged in brokerage activities in the securities market, directed principally to retail customers in Latin America.

(c)

Foreign currency translation -

Functional and presentation currency -

The Group considers that its functional and presentation currency to be the United States dollar (U.S. Dollar), because it reflects the economic substance of the underlying events and the circumstances relevant to the Group; insofar as its main operations and/or transactions in the different countries where the Group operates, such as, loans granted, financing obtained, sale of insurance premiums, interest income and expenses, an important percentage of salaries and purchases, are established and liquidated in U.S. Dollars.

F-19

Notes to the consolidated financial statements (continued)

Financial statements of each of the Credicorp's subsidiaries are measured using the currency of the country in which each entity operates. Their financial statements are translated into U.S. Dollars (functional and presentation currency) as follows:

- Monetary assets and liabilities for each balance sheet presented are translated at the free market exchange rate at the date of the consolidated balance sheet.
- Non-monetary accounts for each balance sheet presented are translated at the free market exchange rate at the date of the transactions.
- Income and expenses, except for those related to non-monetary assets which are translated at the free market exchange rate at the date of the transaction, are translated monthly at the average exchange rate.

All resulting translation differences are recognized in the consolidated income statement.

(d) Income and expense recognition from banking activities -

Interest income and expense are recognized in the income statement for all instruments measured at amortized cost using the effective interest method. It is a method of calculating the amortized cost of a financial assets or a financial liability and allocating the interest income or interest expense over the relevant period on an accrual basis. Interest rates are determined based on negotiations with clients.

Interest income is suspended when collection of loans become doubtful, such as when overdue by more than 90 days or when the borrower or securities' issuer defaults, if earlier 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.

Interest income includes coupons earned on fixed income investment and trading securities and the accrued discount and premium on financial instruments. Dividends are recognized as income when they are declared.

Commission income is recognized on an accrual basis when earned. All other revenues and expenses are recognized on an accrual basis as earned or incurred.

(e) Recognition of income and expenses of insurance activities -

The premiums related to life insurance policies and others, of both long and short duration, are recognized as income when they accrue. A reserve for unearned premiums is recorded for the unexpired portion of the premiums.

The claims reserves are constituted under different methodologies depending on the type of reserve, line of business, type of product and type of coverage.

In the case of life insurance, the claims reserves are calculated taking into account an estimation of the mortality (for life insurance), survival (life annuities, death and disability pension system insurance and complementary Insurance for work risk), (a type of life insurance for certain types of higher risk occupations)) or incidence (personal injury) and the interest established when the product was designed. The reserves are calculated as the present value of the probable cash flows for pension payments, using mortality tables for the policyholders, beneficiaries and disabled who are covered at the consolidated balance sheet date as well as interest rates determined based on the performance of the corresponding portfolio of investments. In the case of individual life insurance, the reserves are determined according

to the mortality tables adjusted in variable percentages according to the product characteristics, as well as the established interest and the type of investment involved according to the type of product.

F-20

Notes to the consolidated financial statements (continued)

The reserves corresponding to the universal life insurance policies form part of the technical life insurance reserves. The additional benefits granted to the policyholders originating from this type of policy are shown in the footnote net premiums earned for life and health insurance contract (note 21) which include the surplus and interest accrued during the period which are credited to the balance of the policyholder.

The insurance claims are recorded when the event occurs. The incurred but non-reported claims (IBNR) are estimated and included in the provision (liabilities). The reserves for IBNR at December 31, 2006 and 2005 have been estimated considering generally accepted actuarial methods, which take into consideration the statistical analysis of the recorded loss history, the use of projection methods and when appropriate, qualitative factors used to reflect the effect of the present conditions or trends that affect historical data. Management considers that the estimated reserve is sufficient to cover liability for IBNR occurred at December 31, 2006 and 2005.

To determine the reserves for life, property and casualty and health insurance, the Group carries out a continuous review of its overall position as well as its techniques for computing the claim reserves and its reinsurance. The provisions are reviewed periodically by qualified actuaries contracted by the Group. Additionally, for those cases the Group considers an additional reserve is necessary, a calculation based on the claims past experience using the chain-ladder methodology or a percentage of the related premium is carried out. The technical provisions recorded are subject to a liability adequacy test to determine its sufficiency based on the future cash flow projections of the contracts in force. If as a consequence of this test, the reserves prove to be insufficient, they are adjusted and the amounts are included in the results of operations for the period.

The costs for acquiring the policies (commissions) that are variable and that are primarily related to the acquisition and renewal of insurance contracts (universal life) are deferred and amortized during the period of the policy. The recoverability of these deferred acquisition costs are reviewed annually.

Based on the periodic reviews of the client portfolio, Management determines the provision for bad debt related to premiums and quotas receivable.

F-21

Notes to the consolidated financial statements (continued)

(f) Loans and allowance for loan losses -

Direct loans are recorded when disbursement of funds to the clients are made. Indirect (off-balance sheet) loans are recorded when documents supporting such facilities are issued. Likewise, Credicorp considers as refinanced or restructured those loans that change their payment schedules due to difficulties in the debtor's ability to repay the loan.

An allowance for credit loss is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the loan. For such purpose, Credicorp classifies all its loans into one of five risk categories, depending upon the degree of risk of nonpayment of each loan. The categories used by Credicorp are: (i) normal, (ii) potential problems, (iii) substandard, (iv) doubtful and (v) loss.

Credicorp reviews its loan portfolio on a continuing basis in order to assess the completion and accuracy of its classification. For commercial loans, the classification takes into consideration several factors, such as the payment history of the particular loan, the history of Credicorp's dealings with the borrower's management, operating history, repayment capability and availability of funds of the borrower, status of any collateral and 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 in the market and other relevant factors. For micro-business, consumer and residential mortgage, the classification is based on how long payments are overdue.

The allowance for loan losses is established based in the risk classifications and taking into consideration the guarantees and collateral obtained by the Group. Only collateral received and classified as "preferred", "highly liquid preferred" or "self-liquidating preferred" is considered acceptable. Such collateral must be relatively liquid, have legally documented ownership, have no liens outstanding and have updated independent appraisals.

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 provisions provided.

All loans considered impaired (the ones classified as substandard, doubtful and loss) are analyzed by the Groups' management, 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 the Group in order to reduce any differences between loss estimates and actual loss experience.

F-22

Notes to the consolidated financial statements (continued)

The allowance for loan losses also covers the estimated losses for impairment loans not specifically identified.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the consolidated income statements.

(g) Leases -

Operating leases -

Leases in which a significant portion of the risks and relative benefits of the property are held by the lessor are classified as operating leases. By this concept, the Group maintains principally leases used as offices and agencies for the Bank.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Finance leases -

The Group grants loans through finance leases; therefore, recognizes the present value of the lease payments as a loan. The difference between the gross receivable amount and the present value of the loan is recognized as unearned interest. Lease income is recognized over the term of the lease using the effective interest method, which reflects a constant periodic rate of return.

(h) Investments -

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

Investments acquired, including those directly from the issuer, mainly with the purpose of generating profits based on short-term price fluctuations, and are considered as financial assets at fair value through profit or loss (hereinafter "trading securities"). Investments available-for-sale are those intended to be held for an indefinite period, which may be sold in response to liquidity needs or changes in the interest rates, exchange rates or equity prices.

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

Estimated fair values are based primarily on quoted prices or, if quoted market prices are not available, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment. All related realized and unrealized gains and losses of trading 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.

Notes to the consolidated financial statements (continued)

The Group 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, the Group 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.

(i) Offsetting financial instruments -

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and Management has the intention to settle on a net basis, or realize the assets and settle the liability simultaneously.

(j) Property, furniture and equipment -

Land and buildings comprise mainly branches and offices. All property, furniture and equipment are stated at historical acquisition cost less depreciation. Historical acquisition costs include expenditures that are directly attributable to the acquisition of the items. Maintenance and repair costs are charged to the consolidated statement of income, and significant renewals and improvements are capitalized when it is probable that future economic benefits, in excess of the originally assessed standard of performance, will flow for the asset.

Land is not depreciated. Depreciation of other assets in this caption is computed on a straight-line to assign a cost at their residual value during its estimated useful lives as follows:

	Years
Buildings and other construction	33
Installations	10
Furniture and fixtures	10
Computer hardware	4
Vehicles and equipment	5

The asset's residual value, the useful life and the selected depreciation method are periodically reviewed to ensure that the method and period of depreciation chosen are consistent with the economic benefits and life expectations for use of property, furniture and equipment items.

Notes to the consolidated financial statements (continued)

(k) Assets seized -

Assets seized are recorded at the lower of cost or the estimated market value obtained from valuations made by independent appraisals.

Changes in market values are recorded in the consolidated income statements.

(l) Intangible assets -

Comprise mainly internal development and acquired software licenses used by the Group. The software licenses acquired by the Group are capitalized on basis of the incurred cost to acquire or used a specific program. These intangible assets are amortized using the straight-line method over their estimated useful life (between 3 and 5 years).

Additionally, it includes other intangible assets identified as consequence of the acquisition AFP Unión Vida, note 2(a), principally the "Client relationships". Such intangibles are recognized on the consolidated balance sheet at their fair values determine on the acquisition date and are amortized using the straight line method over their estimated useful life of 20 years, for the "Client relationships" and 5 years for the other identified intangible assets.

(m) Goodwill -

Goodwill represents the excess of the cost of acquisition of a subsidiary over the fair value of the net identifiable assets of the acquired subsidiary undertaking at the date of acquisition. Goodwill is tested annually for impairment to assess whether the carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount. Goodwill is allocated to cash-generating units for impairment testing purposes.

In accordance with the disposals of IFRS 3, since January 1st, 2005, the Group has ceased the amortization of goodwill. The accumulated amortization as of December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

As of December 31, 2004, goodwill amortization was calculated using the straight-line method, with the followings estimated useful life:

	Years
ASHC and PPS	20
Banco de Crédito del Perú	5
Corporación Novasalud Perú S.A. EPS	7

(n) Due from customers on acceptances -

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

Notes to the consolidated financial statements (continued)

(o) Bonds and subordinated notes issued -

Liabilities arising from the issuance bonds and subordinated notes are recorded at their amortized cost and the corresponding interest is recognized in the consolidated income statements on an accrual basis. Bond discounts or premiums determined at issuance are deferred and amortized over the term of the bonds using the effective interest method.

(p) Provisions -

Provisions for legal claims are recognized when the Group has a present (legal) or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The amount recorded as a provision is equal to the present value of future payments expected to be needed to settle the obligation.

(q) Contingencies -

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed in notes unless the possibility of an outflow of resources is remote.

(r) Income tax and workers' profit sharing -

Income tax and workers' profit sharing and are computed based on individual financial statements of Credicorp and each one of its subsidiaries.

Deferred income tax and deferred workers' profit sharing reflect the effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts determined for tax purposes. Deferred assets and liabilities are measured using the tax rates expected to be applied to taxable income in the years in which temporary differences are expected to be recovered or eliminated. The measurement of deferred assets and deferred liabilities reflects the tax consequences that arise from the manner in which Credicorp and its Subsidiaries expect, at the consolidated balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are recognized regardless of when the timing differences are likely to reverse. Deferred tax assets are recognized when it is more likely than not that future taxable profit will be available against which the temporary difference can be utilized. At the consolidated balance sheet date, Credicorp assesses unrecognized deferred assets and the carrying amount of recognized deferred assets.

Credicorp determines its deferred income tax considering the tax rate applicable to its undistributed earnings; any additional tax on dividends distribution is recorded on the date a liability is recognized.

F-26

Notes to the consolidated financial statements (continued)

(s) Earnings per share -

Basic and diluted earnings per share are calculated by dividing the net profit attributable to Credicorp's equity holders by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased and held as treasury stock. For the years ending December 31, 2006, 2005 and 2004 Credicorp has no financial instruments with dilutive effects. Therefore, basic and diluted earnings per share are the same for all years presented.

(t) Stock appreciation rights -

The Group has granted supplementary profit sharing participation to certain executives and employees who have at least one year of service in Credicorp or any of its subsidiaries, in the form of stock appreciation rights (SARs) over a certain number of Credicorp's shares. Such SARs options are granted at the market price of the shares of Credicorp on the date of the grant and are exercisable at that price, allowing the worker to obtain a gain from the difference between the fixed exercise price of the share at the date of execution and the fixed exercise price, see note 19.

The recorded expense in each year for these participations corresponds to the estimated market value of the rights that can be exercised by the beneficiaries at the consolidated balance sheets date. When Credicorp changes the price or the terms of the SARs, the additional compensation expense is recorded for an amount equal to the difference between the new exercise price and the market price of the underlying shares.

(u) Derivative financial instruments -

Trading -

Most transactions with derivatives, while providing effective economic hedges under Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated as trading derivatives.

Derivative financial instruments are initially recognized in the consolidated balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained based on the market exchange rates and interest rates. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gain and losses for changes in their fair value are recorded in the consolidated income statements.

Hedge -

To qualify as a hedge, a derivative must be highly effective in offsetting the risk designated as being hedged. The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge transactions.

F-27

Notes to the consolidated financial statements (continued)

The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If a hedge relationship is found to be ineffective, it no longer qualifies as a hedge and any excess gains or losses attributable to such ineffectiveness, as well as subsequent changes in fair value, are recognized as income in the consolidated financial statements.

As of December 31, 2006, the Group has only one derivative that qualifies for hedge purposes, see note 20(d), which is an interest rate swap, classified as a cash flow hedge. The effective portion of changes in the fair value of this derivative is recognized in equity, the gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statements. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects profit or loss.

Embedded derivatives -

On 2006, the Group has acquired certificates indexed to its shares price that will be settled off in cash, note 11(c). These instruments have been classified by the Group as a “financial asset at fair value through profit or loss”, because they reduce the liability exposure for the stock appreciation rights granted to the workers. These instruments have been accounted at their fair value and are presented in the caption “Other assets” of the consolidated balance sheets.

(v) Segment reporting -

The Group considers business segment as a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environment, note 25.

(w) Fiduciary activities, management of investment and pension funds -

The Group provides custody, trustee, investment management and advisory services to third parties that result in the holding of assets on their behalf. These assets and income arising thereon are excluded from these consolidated financial statements, as they are not assets of the Group.

The commissions generated for these activities are included on the caption “Other income” in the consolidated income statements, note 26.

(x) Sale and repurchase agreements -

Securities sold subject to repurchase agreements (‘Repos’) are presented as pledged assets when the transferee has the right to sell or repledge the collateral; the counterparty liability is included in the caption “Due to banks and correspondents”, or “Deposits and obligations”, as appropriate, in the consolidated balance sheet.

Notes to the consolidated financial statements (continued)

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(y) Operations with reinsurers and coinsurers -

During the normal course of business, PPS, a subsidiary of Credicorp, is dedicated to insurance activities and cedes reinsurance to other insurance and reinsurance companies to distribute the risks of its insurance contracts and to limit the potential losses that might arise from the coverages. PPS is ultimately responsible for the payment of benefit payments to the policy holders if the reinsurer is not capable of fulfilling said obligation.

The reinsurance and coinsurance include quota share of the excess of loss and facultative (voluntary) types of contracts. The amounts recoverable from the reinsurers and coinsurers are estimated in a manner consistent with the liabilities of the related claims and are presented as a component of reinsured and coinsured assets.

The accounts receivable from reinsurers and coinsurers originate from the incurred claims in which PPS assumes the responsibility for the indemnity in favor of the policyholder for the ceded reinsurance and coinsurance contracts; these accounts receivable are recognized based on contracts or coverage notes (with reinsurers) and clauses of coinsurance.

The allowance for bad debt for accounts receivable from reinsurance and coinsurance contracts is determined on the basis of a specific evaluation of the claims liquidated and paid by PPS that are pending reimbursement from the reinsurers and coinsurers.

The accounts payable to reinsurers and coinsurers are based on the evaluation of the assumed risk, which is determined by PPS (reinsurance) and also includes the policyholder's consent; and are based on contracts or notes of coverage with the reinsurer and/or clauses of ceded coinsurance.

Claims originating from accepted reinsurance contracts and executed clauses of coinsurance are recognized each time a note of collection is received from reinsurance companies.

(z) Cash and cash equivalents -

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

F-29

Notes to the consolidated financial statements (continued)

4. Cash and due from banks

(a) This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Cash and clearing	470,584	361,490
Deposits in Peruvian Central Bank - BCRP	1,405,853	1,599,153
Deposits in banks	853,203	693,601
	2,729,640	2,654,244
Accrued interest	3,890	6,571
Total	2,733,530	2,660,815

(b) As of December 31, 2006 and 2005, cash and due from banks balances include approximately US\$1,675.1 and US\$1,288.9 million, respectively, mainly from Banco de Crédito del Perú, which represent the legal reserve that the Peruvian banks must maintain for its obligations with the public. These funds are deposited in the vaults of the Bank and in the BCRP, and are within the limits established by prevailing legislation. In addition, as of December 31, 2006, the cash and due from banks caption includes US\$70.0 million and S/120.0 (equivalent to US\$37.5 million), corresponds to overnight operations deposited in the BCRP, these operations earned interest at a nominal rate of 4.97 percent and an effective rate of 3.75 percent and had a 4 day maturity (approximately US\$450.0 million, interest at an annual nominal rate of 3.97 percent and 3 day maturity as of December 31, 2005).

Reserve funds kept in BCRP do not earn interest, except for the part of the demandable reserve in foreign currency that exceeds the minimum legal reserve. As of December 31, 2006, this excess amounts to approximately US\$1,068.9 million and earns interest in U.S. Dollars at an annual average rate of 2.67 percent (approximately US\$975.8 million and earned interest in U.S. Dollars at an annual average rate of 2.25 percent as of December 31, 2005).

F-31

Notes to the consolidated financial statements (continued)

5. Trading securities

(a) This item is made up as follows:

	2006	2005
	US\$(000)	US\$(000)
Shares		
Listed equity securities (b)	34,692	45,487
Bonds and similar instruments -		
Participation in mutual funds	6,456	655
Corporate and leasing bonds	2,260	8,442
Bank certificates	1,726	662
Peruvian treasury bonds (c)	-	5,361
Other	-	17
	10,442	15,137
	45,134	60,624
Accrued interest	2	161
Total	45,136	60,785

(b) Correspond mainly to shares listed in the Peruvian stock market, which included US\$12.5, US\$3.5 and US\$3.2 million of the companies Refinería la Pampilla S.A., Cementos Lima S.A. and Energía del Sur S.A., respectively (as of December 31, 2005, included approximately US\$25.9, US\$9.2 and US\$3.2 million of Energia del Sur S.A.A., Cementos Lima S.A., and Mineras del Sur S.A., respectively).

(c) The Peruvian treasury bonds represent sovereign debt issued in Peruvian currency (S/) by the Economic and Financial Ministry of Peru; they have an active market quotation in the Peruvian market and are traded daily with third parties. As of December 31, 2005, these bonds accrued interest at annual rates that ranged between 1.53 and 5.96 percent and have maturities between August 2006 and January 2035. During 2006, the bonds held as of December 31, 2005 were totally sold.

F-32

Notes to the consolidated financial statements (continued)

6. Investments available-for-sale

(a) This item is made up as follows:

	2006			Estimated market value US\$(000)	Amortized cost US\$(000)	2005		Estimated market value US\$(000)
	Amortized Cost US\$(000)	Unrealized gross amount Gains US\$(000)	Losses (b) US\$(000)			Unrealized gross amount Gains US\$(000)	Losses (b) US\$(000)	
Fixed maturity -								
BCRP deposit certificates (d)	1,276,503	1,143	(33)	1,277,613	1,148,303	184	(2,672)	1,145,815
Corporate, leasing and subordinated bonds (e)	845,644	15,769	(3,179)	858,234	599,191	9,835	(5,133)	603,893
Government treasury bonds (f)	476,036	59,564	(1,620)	533,980	365,820	22,080	(746)	387,154
US Government - Sponsored Enterprises (f)	153,867	1,661	(1,299)	154,229	177,925	3,651	(1,617)	179,959
Participation in mutual funds	86,422	9,920	(104)	96,238	82,038	6,000	(691)	87,347
Bonds from international financial institutions (g)	64,578	89	(24)	64,643	112,184	213	(213)	112,184
Participation in RAL's funds (h)	51,204	-	-	51,204	56,073	-	-	56,073
Restricted mutual funds (i)	43,152	6,085	-	49,237	2,531	-	(33)	2,498
Negotiable deposit certificates	47,225	1,104	-	48,329	36,872	762	(12)	37,622
Central Banks of Bolivia deposit certificates	27,833	189	(1)	28,021	-	-	-	-
Commercial papers	15,712	35	(6)	15,741	5,519	-	(4)	5,515
Other	26,930	2,015	(150)	28,795	13,818	278	(109)	13,987
	3,115,106	97,574	(6,416)	3,206,264	2,600,274	43,003	(11,230)	2,632,047
Shares -								
Listed securities (j)	78,649	112,025	(235)	190,439	52,741	87,141	(336)	139,546
Non-listed securities	17,837	7,964	(57)	25,744	19,477	3,972	(413)	23,036
	96,486	119,989	(292)	216,183	72,218	91,113	(749)	162,582
	3,211,592	217,563	(6,708)	3,422,447	2,672,492	134,116	(11,979)	2,794,629
Accrued interest				28,264				16,076

Total

3,450,711

2,810,705

F-33

Notes to the consolidated financial statements (continued)

(b) The Group has determined that the unrealized losses as of December 31, 2006 and 2005, are originated by the variation of the interest rates and not for changes in the risk classification of the investment. Moreover, the Group has decided and has the capacity to maintain these investments until the recovery of their fair value which can occur at their maturity; therefore, the Group has concluded that no impairment exists on the value of these investments.

The fair value and the gross unrealized losses of investment available-for-sale that are not considered as a permanent loss, classified by the date of such losses:

Investments available-for-sale	2006					
	Up to 12 months		More than 1 year		Total	
	Gross		Gross		Gross	
	Estimate fair value	unrealized loss	Estimate fair value	unrealized loss	Estimate fair value	unrealized loss
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Fixed maturity	571,882	3,686	214,752	2,757	786,634	6,443
Shares	1,957	29	793	236	2,750	265
Total	573,839	3,715	215,545	2,993	789,384	6,708

Investments available-for-sale	2005					
	Up to 12 months		More than 1 year		Total	
	Gross		Gross		Gross	
	Estimate fair value	unrealized loss	Estimate fair value	unrealized loss	Estimate fair value	unrealized loss
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Fixed maturity	1,474,665	9,288	96,092	1,942	1,570,757	11,230
Shares	3,343	474	1,496	275	4,839	749
Total	1,478,008	9,762	97,588	2,217	1,575,596	11,979

F-34

Notes to the consolidated financial statements (continued)

(c) The movement of “Other reserves” in equity includes the net change in the realized and unrealized gains and losses, net of deferred taxes, and the provision for impairment. This caption is as follows:

	2006	2005	2004
	US\$(000)	US\$(000)	US\$(000)
Net unrealized gains, net of taxes	69,411	7,121	56,746
Net realized gains, net of taxes	6,620	1,572	1,365

(d) BCRP deposit certificates are discounted Peruvian currency instruments with maturities due within one year. These certificates have been acquired in public auctions. Annual interest rates in Peruvian currency range between 4.53 and 5.78 percent as of December 31, 2006 (between 3.75 and 6.35 percent as of December 31, 2005) with maturities between January 2007 and December 2009 (between January 2006 and June 2008 as of December 31, 2005). As of December 31, 2006 and 2005, the Group has entered into BCRP - Repo transactions in Peruvian currency with its clients using these securities, for approximately US\$167.7 and US\$592.5 million, respectively. As of December 31, 2006, these operations earn an effective annual interest rate range between 4.08 and 5.26 annual percent and with maturities between January and June 2007 (interest rate between 3.55 and 6.23 annual percent and maturities between January 2006 and February 2008 as of December 31, 2005).

(e) As of December 31, 2006, comprise corporate bonds by US\$849.9 million, leasing bonds by US\$3.9 million and subordinated bonds by US\$4.4 million (US\$598.1, US\$1.8 and US\$4.0 million, respectively, as December 31, 2005), with maturities between January 2007 and May 2049 (between January 2006 and November 2035 as of December 31, 2005). These bonds accrue interests at annual effective rates that range between 3.36 and 7.71 percent for the bonds denominated in Peruvian currency (between 2.92 and 8.00 percent in 2005), and between 2.88 and 11.00 percent for the bonds denominated in U.S. Dollars (between 2.23 and 12.03 percent in 2005).

(f) Includes principally debt instruments for US\$154.2, US\$425.1, US\$72.0 and US\$14.0 million issued by US Government - Sponsored Enterprises, the Peruvian Government, the Colombian Government and the Government of El Salvador, respectively, as of December 31, 2006 (US\$179.9, US\$308.9 and US\$18.7 million issued by US Government - Sponsored Enterprises, the Peruvian Government and the Government of El Salvador, respectively, as of December 31, 2005). Their maturities are between February 2007 and August 2038 (between January 2006 and August 2038 as of December 31, 2005) at annual interest rates that range between 2.38 and 11.75 percent (between 1.83 and 11.25 percent in 2005).

As of December 31, 2006, the Group has entered into Repo transactions with its clients using part of the debt instruments issued by the Peruvian Government for approximately US\$19.8 million with maturity in September 2007.

F-35

Notes to the consolidated financial statements (continued)

(g) Comprise mainly of US\$55.1 and US\$9.5 million of debt instruments issued by Corporación Andina de Fomento - CAF and by The World Bank, respectively (mainly of US\$90.8 and US\$18.7 million issued by Corporación Andina de Fomento - CAF and by Fondo Latinoamericano de Reservas - FLAR, respectively, as of December 31, 2005). Such bonds have maturities between January 2007 and July 2009 (between February 2006 and January 2023 as of December 31, 2005). Annual interest rates are between 5.32 and 5.92 percent (between 4.08 and 5.26 percent in 2005).

As of December 31, 2006, the Group has entered into Repo transactions with its clients using these securities for approximately US\$40.1 million. These operations earn an effective annual interest rate range between 5.32 and 5.92 annual percent and with maturity in January 2007.

(h) The participation quotas in the Fund "Requirement of Cash Assets" (RAL for its Spanish denomination), stated in Bolivian pesos, comprises investments made by the Group in the Central Bank of Bolivia as collateral for the deposits maintained with the public. Such fund has restrictions for its use and it is required for all the banks established in Bolivia. The fund accrues interest at an average annual rate of 5.61 percent (4.31 percent in 2005).

(i) The restricted mutual funds comprise participation quotas on the pension funds managed by the Group as required by the legal standards of Peru and they have a restricted disposal. The profitability obtained is the same as the obtained for the funds managed. The amount as of December 31, 2006, approximately US\$32.3 million comes from the purchase of AFP Unión Vida S.A. as mentioned in note 2(a).

(j) As December 31, 2006, the unrealized gains on trade shares comes principally from the shares of Banco de Crédito and Inversiones de Chile - BCI Chile and Alicorp S.A.A., which amounted to US\$60.2 and US\$ 26.9, respectively (amounted to US\$48.8 and US\$18.0 million as December 31, 2005, respectively).

Notes to the consolidated financial statements (continued)

(k) The amortized cost and market value of the investments available-for-sale classified by maturity are as follows:

	2006		2005	
	Amortized cost US\$(000)	Market value US\$(000)	Amortized cost US\$(000)	Market value US\$(000)
Up to 3 months	766,650	781,657	544,449	549,215
From 3 months to 1 year	866,811	868,452	1,005,977	1,003,580
From 1 to 3 years	458,796	460,967	346,577	345,970
From 3 to 5 years	222,215	228,805	149,422	150,520
Over 5 years	800,634	866,383	553,849	582,762
Without maturity (shares)	96,486	216,183	72,218	162,582
Total	3,211,592	3,422,447	2,672,492	2,794,629

7. Net loans

(a) This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Direct loans -		
Loans	4,224,102	3,567,970
Leasing receivables	675,804	564,575
Credit card receivables	438,628	297,673
Discount notes	256,534	213,232
Refinanced and restructured loans	126,006	175,211
Factoring receivables	89,171	87,757
Advances and overdrafts	84,262	49,283
Past due and under legal collection loans	76,770	95,769
	5,971,277	5,051,470
Add (less) -		
Accrued interest	49,740	41,280
Unearned interest	(93,916)	(78,495)
Allowance for loan losses (f)	(190,278)	(197,495)
Total direct loans, net	5,736,823	4,816,760
Indirect loans, note 20(a)	1,455,376	1,220,946

F-37

Notes to the consolidated financial statements (continued)

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

(c) As of December 31, 2006 and 2005, the Group's direct loan portfolio is distributed among the following economic sectors:

Sector	2006 US\$(000)	%	2005 US\$(000)	%
Manufacturing	1,624,765	27.2	1,430,559	28.3
Mortgage loans	883,736	14.8	767,341	15.2
Commerce	686,291	11.5	625,908	12.4
Consumer loans	539,077	9.0	373,447	7.4
Micro-business	306,869	5.1	224,122	4.4
Mining	303,238	5.1	223,156	4.4
Electricity, gas and water	256,541	4.3	192,096	3.8
Communications, storage and transportation	255,730	4.3	210,002	4.2
Leaseholds and real estate activities	236,445	4.0	216,095	4.3
Financial services	163,946	2.7	105,484	2.1
Fishing	152,538	2.6	117,104	2.3
Agriculture	150,020	2.5	153,410	3.0
Education, health and other services	75,376	1.3	69,468	1.4
Construction	74,482	1.2	68,217	1.4
Other	262,223	4.4	275,061	5.4
Total	5,971,277	100.0	5,051,470	100.0

F-38

Notes to the consolidated financial statements (continued)

(d) As of December 31, 2006 and 2005, the credit risk classification of the Group's loan portfolio is as follows:

Risk category	Direct credits		2006 Indirect credits		Total		Direct credits		2005 Indirect credits		Total	
	US\$(000)	%	US\$(000)	%	US\$(000)	%	US\$(000)	%	US\$(000)	%	US\$(000)	%
Normal	5,386,566	90.3	1,398,662	96.2	6,785,228	91.4	4,352,214	86.2	1,137,033	93.1	5,489,247	87.7
Potential problems	341,187	5.7	33,787	2.3	374,974	5.0	397,387	7.9	68,333	5.6	465,720	7.7
Substandard	62,504	1.0	17,668	1.2	80,172	1.1	82,858	1.6	9,284	0.8	92,142	1.5
Doubtful	122,216	2.0	3,565	0.2	125,781	1.7	146,898	2.9	4,694	0.4	151,592	2.4
Loss	58,804	1.0	1,694	0.1	60,498	0.8	72,113	1.4	1,602	0.1	73,715	1.2
Total	5,971,277	100.0	1,455,376	100.0	7,426,653	100.0	5,051,470	100.0	1,220,946	100.0	6,272,416	100.0

(e) As of December 31, 2006 and 2005, the Group's structure of its direct loan portfolio by the country in which its clients are located is as follows:

Country -	2006	2005
	US\$(000)	US\$(000)
Peru	5,481,003	4,601,400
Bolivia	397,197	366,945
Colombia	34,370	10,955
Ecuador	15,571	30,265
Republic of El Salvador	14,249	9,382
United States of America	13,393	5,373
Republic of Panama	3,986	8,860
Other	11,508	18,290
Total	5,971,277	5,051,470

F-39

Notes to the consolidated financial statements (continued)

(f) The movement in the allowance for loan losses (direct and indirect credit) is shown below:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Balances as of January 1st	218,636	271,873	326,677
Provision	(4,243)	(6,356)	16,131
Recoveries of written-off loans	44,284	35,032	32,287
Allowance disposal related to the sale of Banco Tequendama, note 2(c)	-	(9,024)	-
Loan portfolio written-off	(49,859)	(71,405)	(105,267)
Translation result	1,768	(1,484)	2,045
Balance as of December 31 (*)	210,586	218,636	271,873

(*) The movement in the allowance for loan losses includes the allowance for direct and indirect credits for approximately US\$190.3 and US\$20.3 million, respectively, as of December 31, 2006 (approximately US\$197.5 and US\$21.1 million and US\$253.4 and US\$18.5 million, respectively, as of December 31, 2005 and 2004). The allowance for indirect loan losses is included in the "Other liabilities" caption of the consolidated balance sheet, note 11(a).

In Management's opinion, the allowance for loan losses recorded as of December 31, 2006, 2005 and 2004 has been established in accordance with IAS 39 and it is sufficient to cover the losses on the loans portfolio, note 3(f).

(g) An important part of the loan portfolio is collateralized with guarantees received from clients, which mainly consist of mortgages, trust assignments, credit instruments, financial instruments, industrial pledges and mercantile pledges.

F-40

Notes to the consolidated financial statements (continued)

(h) As of December 31, 2006 and 2005, the direct gross loan portfolio classified by maturity, based in the remaining period to the repayment date is as follows:

	2006 US\$(000)	2005 US\$(000)
Outstanding loans -		
Up to 1 year	3,774,711	3,029,773
From 1 to 3 years	797,458	762,834
From 3 to 5 years	464,718	474,294
Over 5 years	857,620	688,800
Past due loans -		
Up to 4 months	20,655	3,644
Over 4 months	21,613	44,664
Under legal collection loans	34,502	47,461
Total	5,971,277	5,051,470

Interest on past due loans and loans in legal collection are recognized when collected.

The interest income that would have been recorded for these credits in accordance with the terms of the original contract amount approximately US\$28.1 and US\$25.8 million as of December 31, 2006 and 2005, respectively.

(i) As of December 31, 2006 and 2005, 51 percent of the direct and indirect loans portfolio of the BCP was concentrated on approximately 443 and 313 clients, respectively.

F-41

Notes to the consolidated financial statements (continued)

8. Property, furniture and equipment, net

(a) The movement of property, furniture and equipment and accumulated depreciation, for the years ended 2006 and 2005, is as follows:

	Buildings and other Land construction	Installations	Furniture and fixtures	Computer hardware	Vehicles and equipment	Work in progress	2006	2005	
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	
Cost -									
Balance as of January 1st	29,729	255,351	80,990	65,521	168,784	13,999	11,946	626,320	610,239
Additions	3,451	1,879	6,171	2,905	17,842	3,498	8,227	43,973	48,769
Merger additions, note 2(a)	292	452	-	2,068	2,900	84	-	5,796	-
Sales and transfers	(2,690)	(6,865)	1,540	(1,429)	(4,053)	(458)	(2,800)	(16,755)	(22,307)
Assets retired related to the sell of Banco Tequendama	-	-	-	-	-	-	-	-	(10,381)
Balance as of December 31	30,782	250,817	88,701	69,065	185,473	17,123	17,373	659,334	626,320
Accumulated depreciation -									
Balance as of January 1st	-	129,630	51,291	51,980	140,103	5,017	-	378,021	363,527
Additions	-	7,074	6,512	3,522	12,870	1,499	-	31,477	30,559
Merger additions, note 2(a)	-	158	-	1,465	2,056	57	-	3,736	-
Sales and transfers	-	(3,064)	(795)	(1,496)	(3,572)	(451)	-	(9,378)	(6,633)
Assets retired related to the sell of Banco Tequendama	-	-	-	-	-	-	-	-	(9,432)
Balance as of December 31	-	133,798	57,008	55,471	151,457	6,122	-	403,856	378,021
Net book value	30,782	117,019	31,693	13,594	34,016	11,001	17,373	255,478	248,299

F-42

Notes to the consolidated financial statements (continued)

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

(c) As of December 31, 2006, Credicorp and its Subsidiaries have property available for sale for US\$25.2 million approximately, net of its accumulated depreciation amounted US\$7.7 million approximately (US\$27.1 and US\$9.8 million, respectively, as of December 31, 2005).

(d) Management periodically review the assets' residual value, the useful life and the method of depreciation to ensure that the method and period of depreciation chosen are consistent with the economic benefits and life expectations for use of property, furniture and equipment items. In Management's opinion, there is no evidence of impairment of property, furniture and equipment as of December 31, 2006 and 2005.

9. Assets seized, net

(a) As of December 31, 2006 and 2005, this caption includes land, buildings, machinery and equipment received in payment of loans. Assets seized were recorded at the lower of cost or estimated fair values determined on the basis of technical third party appraisals. This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Assets seized	52,432	71,469
Reserve	(23,005)	(32,096)
Total	29,427	39,373

(b) The changes in the reserve for assets seized as of December 31, 2006, 2005 and 2004 are summarized as follows:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Balances as of January 1st	32,096	34,666	35,047
Provision	6,387	16,959	14,639
Assets retired related to the sell of Banco Tequendama, note 2(c)	-	(1,678)	-
Sold assets	(15,478)	(17,851)	(15,020)
Balances as of December 31	23,005	32,096	34,666

Notes to the consolidated financial statements (continued)

10. Intangibles and goodwill, net

(a) Intangibles -

Comprise mainly the identified intangible assets as result of the acquisition of the “client relationships” and other in the purchase of AFP Union Vida, note 2(a) and the incurred cost on the development and acquisition of software licenses used in the Group operations.

The movement of intangible assets for the years ended December 31, 2006 and 2005 is as follows:

Description	Client	Software	Developments	Others	2006	2005
	Relationships					
	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Cost -						
Balance as of January 1st	-	26,618	23,950	514	51,082	81,969
Additions	-	10,848	8,919	-	19,767	11,933
Incorporated by business combination, note 2(a) and 3(b)	88,378	8,542	-	10,922	107,842	-
Retirements and write - off	-	(5,091)	(422)	(1,153)	(6,666)	(42,820)
Balance as of December 31	88,378	40,917	32,447	10,283	172,025	51,082
Accumulated amortization						
Balance as of January 1st	-	11,277	14,667	478	26,422	61,058
Amortization of the year	1,473	9,022	4,190	4,155	18,840	8,169
Incorporated by business combination, note 2(a) and 3(b)	-	5,360	-	1,077	6,437	-
Retirements and write - off	-	(4,994)	(418)	(1,067)	(6,479)	(42,805)
Balance as of December 31	1,473	20,665	18,439	4,643	45,220	26,422
Net book value	86,905	20,252	14,008	5,640	126,805	24,660

In September 2005, the Group wrote off certain intangibles assets fully amortized and out of use for US\$42.3 million.

Notes to the consolidated financial statements (continued)

(b) Goodwill -

The following is the composition of the caption by subsidiary:

	2006 US\$(000)	2005 US\$(000)
Goodwill -		
Prima AFP (AFP Unión Vida S.A.), note 2(a)	49,047	-
El Pacífico Peruano - Suiza	13,007	13,007
Banco de Crédito del Perú, note 3(b) (iii)	12,300	5,062
Atlantic Security Holding Corporation	10,660	10,660
Coporación Novasalud Perú S.A. EPS, note 2(d)	3,828	4,828
Book value, net	88,842	33,557

Goodwill is annually assessed by impairment by Management and the assumptions used for the impairment analysis are consistent with previous years. As of December 31, 2006 and 2005, it was not necessary to record a provision for impairment of goodwill on the Group.

The movement of goodwill for the years 2006, 2005 and 2004 as follows:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Cost -			
Initial balance	33,557	33,557	55,922
Acquisition of Subsidiaries, notes 2 (a) and 3(b)	56,285	-	5,900
Decreases	(1,000)	-	-
Final balance	88,842	33,557	61,822
Accumulated amortization -			
Initial balance	-	-	23,412
Additions	-	-	4,853
Final balance	-	-	28,265
Cost, net	88,842	33,557	33,557

F-45

Notes to the consolidated financial statements (continued)

11. Other assets and other liabilities

(a) These items are made up as follows:

	2006 US\$(000)	2005 US\$(000)
Other assets -		
Indexed certificates Citigroup (c)	53,116	-
Accounts receivable	48,149	40,370
Deferred expenses (b)	40,941	36,890
Deferred income tax asset, note 18(c)	38,016	32,966
Operations in process (d)	29,752	37,347
Derivatives receivable, note 20(d)	19,134	8,829
Income tax prepayments, net	14,509	11,024
Deferred fees	11,339	10,588
Investment in related companies	5,657	16,968
Other	12,575	8,127
Total	273,188	203,109
Other liabilities -		
Payroll salaries and other personnel expenses	104,635	67,230
Accounts payable	79,039	57,185
Deferred income tax liability, note 18(c)	65,810	30,734
Operations in process (d)	41,606	46,359
Provision for sundry risks (e)	17,179	18,768
Allowance for indirect loan losses, note 7(f)	20,308	21,141
Contributions	12,154	30,781
Derivatives payable, note 20(d)	7,774	8,019
Other	7,608	9,783
Total	356,113	290,000

(b) As of December 31, 2006, this caption mainly comprises the Value-Added-Tax credit related to the purchases for leasing operations for approximately US\$6.2 million and prepaid insurances for US\$10.5 million (US\$14.1 and US\$8.6 million, respectively, as of December 31, 2005).

Notes to the consolidated financial statements (continued)

(c) In July 2006, BCP signed a contract with Citigroup Global Markets Holdings Inc., Citigroup Capital Limited and Citigroup Capital Market Inc., with the purpose of implementing an economic hedge to offset the volatility generated by the liabilities and related expenses that result from stock appreciation rights (SARs) of Credicorp, note 19.

This transaction consists of the purchase of up to 1,500,000 certificates indexed to the performance of the shares of Credicorp Ltd. (BAP), in the form of "warrants", issued by Citigroup, which are equivalent to the same number of shares of Credicorp Ltd.. These certificates will be settled in cash only. At maturity, these certificates will pay a US\$ amount equal to the final settlement price minus the strike price (US\$ 0.0000001) plus the accrued dividend adjustment amount, minus the annual fee amount multiplied by the number of warrants underlying the certificate. The final settlement price is equivalent to the daily volume-weighted average of the per share price for the underlying equity on each business day, on which the Citigroup or an affiliate of the Citigroup effects any transactions with respect to the underlying equity in order to unwind its position established and maintained to hedge its price and market risk with respect to the certificate issued.

This program has a maturity of 5 years but can be settled at anytime before its maturity, partially or totally. As of December 31, 2006, the Group has acquired 1,297,414 certificates at a total cost of US\$ 49.7 million (US\$38.3 per certificate on average). The estimated market value, established under the same methodologies and assumptions used to determine the fair value of the SARs detailed in note 19, adding up to US\$ 53.1 million (US\$41.0 per certificate on average). The difference between the cost and the estimated market value of approximately US\$3.5 million has been recorded in the caption "Other income" of the consolidated statements of income, according to the accounting principles described in note 3(u).

(d) Operations in process include deposits received, loans disbursed, payments collected, funds transferred and other similar types of transactions, which are realized at the end of the month and not reclassified to their final balance sheets accounts until the beginning days of the following month. These transactions do not affect the Group's net income.

(e) The movement of the provision for sundry risks for the years 2006, 2005 and 2004 is summarized as follows:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Balances as of January 1st	18,768	19,379	10,078
Provision, note 23	6,461	5,567	9,819
Applications	(8,050)	(6,178)	(518)
Balances as of December 31	17,179	18,768	19,379

F-47

Notes to the consolidated financial statements (continued)

This provision mainly comprises the provision for probable losses to complement insurance coverage corresponding to claims not covered by insurance companies.

Additionally, due to the nature of the business, Credicorp and its Subsidiaries have some pending legal claims (lawsuits) related to their activities. The Group records a provision for such cases when, in Management's and its legal advisor's opinion, they will result in additional liabilities for the Group and the amount of the provision can be fairly estimated. Regarding the other legal claims against the Group which have not been provided for, in Management's and its legal advisor's opinion, they will not have a material effect on the Group's financial statements

12. Accounts receivable and payable to re-insurers and co-insurers

The movement and balance of accounts receivable and payable to reinsurers and coinsurers are as follows:

(a) Accounts receivable:

	2006 US\$(000)	2005 US\$(000)
Balance as of January 1st	35,288	35,453
Premiums assumed	11,022	13,642
Reported claims	16,273	15,804
Collections and other	(27,402)	(29,611)
Balance as of December 31	35,181	35,288

(b) Accounts payable:

	2006 US\$(000)	2005 US\$(000)
Balance as of January 1st	36,580	23,612
Premiums ceded to reinsurers	70,067	66,415
Co-insurance granted	6,430	12,673
Payments and other	(87,943)	(66,120)
Balance as of December 31	25,134	36,580

F-48

Notes to the consolidated financial statements (continued)

(c) The accounts receivable as of December 31, 2006 include an amount to US\$14.4 million (US\$21.4 million as of December 31, 2005) which correspond to the portion not accrued of the ceded premiums to the reinsurers.

(d) The accounts payable to reinsurers are primarily related to automatic non-proportional contracts (excess of loss) and the proportional facultative (voluntary) contracts for ceded premiums. For the facultative contracts, the Company transfers to the reinsurers a percentage or amount of an insurance contract or individual risk, based on the premium and the coverage period.

13. Deposits and obligations

(a) This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Non-interest bearing deposits and obligations -		
In Peru	1,577,315	1,248,113
In other countries	412,249	423,508
	1,989,564	1,671,621
Interest bearing deposits and obligations -		
In Peru	5,213,044	4,031,231
In other countries	1,596,526	1,364,902
	6,809,570	5,396,133
	8,799,134	7,067,754
Interest payable	39,857	25,674
Total	8,838,991	7,093,428

The Group has established a policy to remunerate demand deposits and savings accounts according to an interest rate scale, based on the average balance maintained in such accounts. Additionally, according to such policy, it was established that the balances that were lower than a specified amount, for each type of account, do not bear interest.

Notes to the consolidated financial statements (continued)

(b) As of December 31, 2006 and 2005, the balance of deposits and obligations by type of transaction is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Time deposits	3,218,157	2,459,907
Demand deposits	2,564,268	1,729,114
Saving deposits	1,951,978	2,105,364
Severance indemnity deposits	775,027	654,791
Client - Repurchase agreements	228,165	72,200
Bank and Deposit negotiable certificates	61,539	46,378
Total	8,799,134	7,067,754

(c) As of December 31, 2006, the total amount of individual time deposits and bank certificates that exceed US\$100,000 are approximately US\$2,722.6 and US\$35.9 million, respectively (US\$1,095.7 and US\$7.9 million, respectively, as of December 31, 2005).

(d) Interest rates applied to different deposits and obligations accounts are determined by the Group considering interest rates prevailing in the market in which the subsidiaries operate.

(e) The time deposits balance classified by maturity is made up as follows:

	2006 S/(000)	2005 S/(000)
Up to 3 months	2,219,948	1,362,929
From 3 months to 1 year	799,584	591,601
From 1 to 3 years	163,283	192,117
From 3 to 5 years	29,226	174,959
More than 5 years	6,116	138,301
Total	3,218,157	2,459,907

F-50

Notes to the consolidated financial statements (continued)

14. Due to banks and correspondents and borrowed funds

(a) Due to bank and correspondents -

This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
International funds and others (i)	346,945	220,027
Promotional credit lines (ii)	177,900	212,133
Inter-bank funds	41,077	78,542
BCRP - Repo transactions (iii)	-	510,593
	565,922	1,021,295
Interest payable	5,067	2,076
Total	570,989	1,023,371

(i) The balance of international funds and others corresponds to the following operations:

	2006 US\$(000)	2005 US\$(000)
Banco Latinoamericano de Exportaciones - BLADEX	105,000	100,000
Corporación Andina de Fomento - CAF	85,000	50,000
Wachovia Bank	65,200	-
Scotiabank Peru	36,000	24,874
Standard Chartered	15,000	-
Other	40,745	45,153
Total	346,945	220,027

These international funds and other received by the Group, are carried out mainly to financing foreign trade operations and working capital. As of December 31, 2006 these loans have maturities between January 2007 and May 2007 (between January 2006 and May 2006 as of December 2005). The interest rate range between 3.73 and 5.76 (between 2.55 and 4.95 as of December 2005).

F-51

Notes to the consolidated financial statements (continued)

(ii) The promotional credit lines represent loans granted to BCP by Corporación Financiera de Desarrollo (COFIDE) and Banco Interamericano de Desarrollo (BID), to promote the development of Peru, have maturities between January of 2007 and December of 2021 and their interest rates fluctuated between 5.65 and 7.90 percent annual (between January as 2006 and December 2021 and their interest effective rate fluctuated between 4.41 and 7.25 percent annual as of December 31, 2005). These credit lines are secured by a loan portfolio amounting to US\$177.9 and US\$212.1 million as of December 31, 2006 and 2005, respectively. These lines include covenants specifying the use of the funds, financial conditions that the borrower must maintain and other administrative matters. In Management's opinion, these covenants do not limit the Group's operations and the Group is in compliance at the balance sheet date.

(iii) As of December 31, 2005, the Group had BCRP - Repo transactions with the Peruvian Central Bank (BCRP), which earned annual interest rates between 3.23 and 3.32 percent, with 3 day maturities.

(b) Borrowed funds -

The balance of the borrowed funds corresponds to the following operations:

	2006 US\$(000)	2005 US\$(000)
CCR Inc. MT-100, Payment rights master Trust -		
2005 Series A and B (i)	280,000	280,000
2006 Series A (ii)	90,612	-
Total	370,612	280,000

(i) Amount represents the loan transaction made by the BCP in November 2005 for US\$230.0 million, related to Series 2005-A Floating Rate Certificates due 2012, and US\$50.0 million related to Series 2005-B Floating Rate Certificates due 2009. The loan is secured by the collection of BCP's future inflows from electronic messages sent through the Society for Worldwide Interbank Financial Telecommunications network and utilized within the network to instruct correspondent bank to make a payment of a certain amount to a beneficiary that is not a financial institution. In this transaction, Wilmington Trust Company acted as Trustee under the trust agreement and Bank of New York as Indenture Trustee and administrator of the contract. The certificates bear a variable interest rate of one month Libor plus 0.21 percent for the 2005-A Series and one month Libor plus 0.60 percent for the Series 2005-B. As of December 31, 2006 and 2005, the balance of this obligation amounts to US\$280.0 million. A portion (70 percent), of the loan, subject to variable interest rate risk, has been hedged through an interest rate swap hedge operation for a notional amount of US\$196.0 million, note 20(d).

Notes to the consolidated financial statements (continued)

In addition, for the US\$100.0 million of the Series 2006-A and the US\$230.0 million of the Series 2005-A, BCP has signed an insurance policy with AMBAC Assurance Corporation, which guarantees the timely payment of scheduled principal and certain accrued interest to pay the monthly payments with maturities through November 2016 and November 2012, respectively. The insurance policy cost is equivalent to an annual fixed interest rate of 0.80 and 0.75 percent of the principal, that is recorded as part of the interests cost.

(ii) Amount represents the loan transaction made by the BCP in March 2006 for US\$100.0 million, related to Series 2006-A Floating Rate Certificates due 2016. The loan is secured by the collection of BCP's future inflows from electronic messages sent through the Society for Worldwide Interbank Financial Telecommunications network and utilized within the network to instruct correspondent bank to make a payment of a certain amount to a beneficiary that is not a financial institution. In this transaction, Wilmington Trust Company acted as Trustee under the trust agreement and Bank of New York as Indenture Trustee and administrator of the contract. The certificates bear a variable interest rate of one month Libor plus 0.29 percent. As of December 31, 2006, the balance of this obligation amounts to US\$90.6 million.

The loans obtained by the Group include "covenants" which in Management's opinion, the Group is in compliance at the consolidated balance sheet date.

(c) As of December 31, 2006 and 2005, maturities of due to bank and correspondents and borrowed funds are shown below, based in the remaining period to the repayment date:

Due to bank and correspondents	2006 US\$(000)	2005 US\$(000)
Up to 3 months	279,802	864,966
From 3 months to 1 year	126,447	13,271
From 1 to 3 years	23,457	20,963
From 3 to 5 years	22,001	28,402
More than 5 years	114,215	93,693
Total	565,922	1,021,295

F-53

Borrowed Funds	2006 US\$(000)	2005 US\$(000)
From 1 to 3 years	61,217	8,025
From 3 to 5 years	166,817	124,139
More than 5 years	142,578	147,836
Total	370,612	280,000

(d) As of December 31, 2006, the Group has credit lines granted by several local and foreign financial institutions amounted to US\$ 1,162.5 million (US\$787.3 million as of December 31, 2005) that are available for future operating activities or to settle capital commitments.

15. Technical, insurance claims reserves and reserves for unearned premiums

This item is made up as follows:

	2006			
	Technical reserves US\$(000)	Reserves for direct claims US\$(000)	Claims assumed US\$(000)	Total US\$(000)
Life insurance	442,172	41,932	794	484,898
Property and casualty insurance	67,640	39,429	2,164	109,233
Health insurance	15,029	19,053	8	34,090
Total	524,841	100,414	2,966	628,221

	2005			
	Technical reserves US\$(000)	Reserves for direct claims US\$(000)	Claims assumed US\$(000)	Total US\$(000)
Life insurance	383,158	35,792	1,047	419,997
Property and casualty insurance	63,976	30,125	565	94,666
Health insurance	16,292	15,139	-	31,431
Total	463,426	81,056	1,612	546,094

F-54

Notes to the consolidated financial statements (continued)

The reserves for claims represent the reported claims and the reserve for the incurred and non-reported claims by the policyholders chargeable to the Group and its Subsidiaries. The reported claims are adjusted on the basis of the technical reports received from the adjusters. The claims to be paid by the reinsurers and coinsurers are shown as ceded claims.

The reserves for direct claims include reserves for incurred and non-reported claims for the three types of risks that the Group manages; such amounts at December 31, 2006 were US\$ 27.6 million (US\$24.2 million as of December 31, 2005), of which US\$ 11.7 million correspond to life risks, US\$8.2 million to property and casualty and US\$ 7.7 million to health risks (US\$8.7, US\$3.8 and US\$11.7 million, respectively, as of December 31, 2005). The IBNR reserves for property and casualty and health risks have been determined on the basis of the Bornhuetter - Ferguson methodology - BF, which is applied to compare statistical occurrences of claims, excluding payments made to the policyholders.

During 2006 and previous years, the differences between the estimations for the incurred and non-reported claims and the liquidated and pending liquidation claims have not been significant. In the case of property and casualty and health risks, the amounts provisioned are greater than the liquidated claims and those pending liquidation by a percentage that does not exceed 10% of the reserve.

The movement for the years 2006 and 2005 of technical and insurance claims reserves is as follows:

(a) Reserves for insurance claims:

	2006			
	Life insurance	Property and casualty insurance	Health insurance	Total
	US\$(000)	US\$(000)	US\$(000)	US\$(000)
Initial balance	36,839	30,690	15,139	82,668
Claims	52,713	60,285	89,797	202,795
Payments	(49,369)	(49,386)	(86,119)	(184,874)
Translation result	2,543	4	244	2,791
Final balance	42,726	41,593	19,061	103,380

Notes to the consolidated financial statements (continued)

	2005			Total US\$(000)
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	
Initial balance	35,846	29,293	11,561	76,700
Claims	41,650	56,539	93,115	191,304
Payments	(38,732)	(54,660)	(89,537)	(182,929)
Translation result	(1,925)	(482)	-	(2,407)
Final balance	36,839	30,690	15,139	82,668

(b) Technical Reserves:

	2006			Total US\$(000)
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	
Initial balance	383,158	63,976	16,292	463,426
Accretion expenses and other	12,683	-	-	12,683
Unearned premium reserves and annual variation, net	-	3,664	(1,263)	2,401
Insurance subscriptions	60,227	-	-	60,227
Payments	(23,356)	-	-	(23,356)
Translation result	9,460	-	-	9,460
Final balance	442,172	67,640	15,029	524,841

F-56

Notes to the consolidated financial statements (continued)

	2005			
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	Total US\$(000)
Initial balance	322,629	59,624	12,703	394,956
Accretion expenses and other	14,832	-	-	14,832
Unearned premium reserves and annual variation, net	-	4,352	3,589	7,941
Insurance subscriptions	70,366	-	-	70,366
Payments	(19,130)	-	-	(19,130)
Translation result	(5,539)	-	-	(5,539)
Final balance	383,158	63,976	16,292	463,426

As of December 31, 2006 and 2005, no additional reserves were needed as a result of the liability adequacy test. The main assumptions used in estimation of annuities, disability and survivor reserves as of December 31, 2006 and 2005, were the following:

Modality	Mortality Table	Technical rates
Life immediate annuity	RV2004 and B - 85	3% - 5.45%
Dead an Disability Pension System insurance	RV 85 MI - 85H y 85M	3%
Individual Life	SOC 80 adjustable	4% - 5%

The mortality tables are recommended by the regulators in Peru.

The sensitivity of the estimates used by the Group to measure its insurance risks is represented primarily by the life insurance risks, the main variables at the balance sheet date being the interest rates and the mortality tables. The Group has evaluated the changes of the reserves related to life insurance (Life immediate annuities) of +/- 100 bps of the interest rates and of +/- 5% of the mortality factors, being the results as follows:

Notes to the consolidated financial statements (continued)

Variables	Amount of the reserve US\$ (000)	Variation of the reserve	
		Amount US\$ (000)%	Percentage
Portfolio in US\$ - Basis amount	251,036		
Changes in interest rates: + 100 bps	228,443	(22,593)	(9.00)
Changes in interest rates: - 100 bps	277,843	26,807	10.68
Changes in Mortality tables to 105%	248,278	(2,758)	(1.10)
Changes in Mortality tables to 95%	253,951	2,915	1.16

Variables	Amount of the reserve US\$ (000)	Variation of the reserve	
		Amount US\$ (000)%	Percentage
Portfolio in S/ - Basis amount	9,491		
Changes in interest rates: + 100 bps	8,540	(951)	(10.02)
Changes in interest rates: - 100 bps	10,643	1,152	12.14
Changes in Mortality tables to 105%	9,462	(29)	(0.31)
Changes in Mortality tables to 95%	9,529	38	0.40

The effect of the changes previously indicated, is not significant to the net income and net equity attributed to Credicorp's shareholders

F-58

Notes to the consolidated financial statements (continued)

16. Bonds and subordinate notes issued

(a) This item is made up as follows:

	Weighted average annual interest rate		Maturity	2006	2005
	2006 %	2005 %		US\$(000)	US\$(000)
Bonds -					
Corporate bonds (i)	6.23	5.89	Between January 2007 and March 2013	90,173	86,413
Leasing bonds (ii), (iii)	5.53	5.59	Between January 2007 and November 2010	177,952	219,564
Mortgage bonds (iii)	7.70	7.70	Between January 2007 and April 2012	23,610	27,620
Subordinated bonds	6.89	6.83	Between August 2007 and October 2013	96,758	92,014
				388,493	425,611
Subordinated notes -					
Subordinated negotiable certificates notes (iv)				120,000	-
				508,493	425,611
Interest payable				4,079	3,613
Total				512,572	429,224

F-59

Notes to the consolidated financial statements (continued)

(i) During 2006, the bank issued corporate bonds, for US\$ 47.2 million (US\$35.0 million during 2005) and redeemed bonds for US\$43.4 million (US\$24.0 million during 2005) representing a net increase of US\$ 3.8 million (US\$11.0 million during 2005). The details of the new issuance are the following:

Issue 2006	Amount US\$(000)	Currency	Maturity
Sixth issuance - Series B	6,258	Peruvian	08/08/2008
Sixth issuance - Series A	6,258	Peruvian	27/02/2008
Eight issuance - Series B	10,951	Peruvian	06/09/2010
Eight issuance - Series C	7,822	Peruvian	21/09/2010
Eight issuance - Series D	5,006	Peruvian	11/10/2010
Ninth issuance - Series B	7,822	Peruvian	03/03/2011
Tenth issuance - Series B	3,129	Peruvian	24/03/2013
Total	47,246		

Issue 2005	Amount US\$(000)	Currency	Maturity
Third issuance - Series B	8,746	Peruvian	29/05/2007
Seventh issuance - Series A	4,373	Peruvian	21/11/2009
Seventh issuance - Series B	5,831	Peruvian	21/11/2012
Eight issuance - Series A	5,831	Peruvian	24/11/2008
Ninth issuance - Series A	5,831	Peruvian	24/11/2010
Tenth issuance - Series A	4,373	Peruvian	06/12/2008
Total	34,985		

(ii) In 2005, Crédito Leasing S.A., a subsidiary of Credicorp, issued the Third Program of Leasing Bonds Series “A” and “B” amount to US\$15.0 million and US\$25.0 million with maturities between February 2007 and July 2008, respectively. Likewise, during 2006, Crédito Leasing S.A. redeemed bonds for US\$41.6 million (US\$40.9 million during 2005).

(iii) Leasing and mortgages bonds are collateralized by the fixed assets financed by the Group with these resources.

(iv) On August, 2006, the Board or Directors of BCP approved the issuance of subordinated debt of up to US\$175 million, with the aim to meet the requirement of the regulatory capital of the Group in Peru. The issuance will be realized in parts in 2006 and 2007 on the international and local market.

In November 2006, BCP through its Panama branch, issued Subordinated Negotiable Certificates Notes amounted to US\$120 million on the international market with maturity on 2021. These certificates accrued a fixed annual interest rate of 6.95 percent for the first 10 years (until November 2016), with payment each six months. After the first 10 years, the interest rate is change to a variable interest rate, established as Libor plus 2.79 percent, with quarterly payments. At the end of the first 10 years, the Bank can redeem 100 percent of the debt, without penalties. This subordinated debt has certain financial and operating covenants which in Management’s opinion, the Group is in compliance at the consolidated balance sheet date.

Notes to the consolidated financial statements (continued)

(b) The bonds and subordinate bonds issued as of December 31, 2006 and 2005, classified by maturity are shown below:

	2006 US\$(000)	2005 US\$(000)
Up to 3 months	19,316	-
From 3 months to 1 year	56,701	43,488
From 1 to 3 years	177,873	246,254
From 3 to 5 years	110,224	92,167
Over 5 years	144,379	43,702
Total	508,493	425,611

17. Equity

(a) Capital stock -

As of December 31, 2006, 2005 and 2004, 94,382,317 shares of capital stock were issued with a par value of US\$5 per share.

(b) Treasury stock -

Treasury stock corresponds to the par value of Credicorp's shares owned by the Group's companies, which amounts 14,620,842 shares as of December 31, 2006 and 2005. The difference of US\$113.4 million, between the acquisition cost of US\$186.5 million and their par value (US\$73.1 million), is recorded as a reduction of the "Capital surplus".

F-61

Notes to the consolidated financial statements (continued)

(c) Reserves -

In accordance with the local laws that regulate financial and insurance activities of the Group's subsidiaries in Peru, a reserve of up to at least 35 percent of their paid-in capital is required to be established through annual transfers of at least 10 percent of net income. As of December 31, 2006 and 2005, these reserves were approximately US\$214.8 and US\$209.3 million respectively.

The Shareholders Meeting dated on October 26, 2006 agreed to transfer from "retained earnings" to "other reserves" an amount of US\$210.4 million.

(d) Dividends distribution -

During 2006, 2005 and 2004, Credicorp paid cash dividends amount to approximately US\$87.7, US\$63.8 and US\$31.9 million, respectively.

Credicorp has declared a cash dividend of US\$1.30 per Common Share for a total amount of approximately US\$122.7 million, corresponding to the results of 2006, which was distributed on May 7, 2007.

In accordance with current Peruvian legislation, there is no restriction for overseas remittance of dividends or the repatriation of foreign investment. The dividends paid by the Peruvian subsidiaries to Credicorp are subject to a withholding tax of 4.1 percent.

(e) Equity for legal purposes (Regulatory capital) -

As of December 31, 2006 and 2005, the regulatory capital for the subsidiaries engaged in financial and insurance activities amounted to approximately US\$1,008.0 and US\$915.0 million, respectively. This regulatory capital has been determined in accordance with the Superintendencia de Banca, Seguros y AFP del Perú regulations in force as of such dates. According to the Superintendencia de Banca, Seguros y AFP regulations, the Group's regulatory capital exceeds in approximately US\$157.0 million the minimum regulatory capital required as of December 31, 2006 (approximately US\$166.6 million as of December 31, 2005).

18. Taxes

(a) Credicorp is not subject to any type of income taxes, nor taxes on capital gains, equity or property. The Peruvian subsidiaries are subject to corporate taxation on income under the Peruvian Tax system. The statutory income tax rate payable in Peru is 30 percent of taxable profits in 2006, 2005 and 2004.

ASHC and its Subsidiaries are not subject to taxes in the Cayman Islands nor Panama. For the years ended December 31, 2006, 2005 and 2004, no taxable profits were generated from its operations in the United States of America.

Notes to the consolidated financial statements (continued)

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

	2006 %	2005 %	2004 %
Peruvian statutory tax rate	30.00	30.00	30.00
Increase (decrease) in the statutory tax rate due to:			
(i) Increase (decrease) arising from net income of subsidiaries not domiciled in Peru	4.08	1.05	1.60
(ii) Non-taxable costs (income), net	(4.86)	(6.23)	(3.86)
(iii) Translation results not considered for tax purposes	(3.96)	2.58	(3.42)
Effective income tax rate	25.26	27.40	24.32

(b) The deferred income tax has been calculated on all temporary differences applied at an income tax rate of 30 percent. The income tax expense analysis as of December 31, 2006, 2005 and 2004, is as follows:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Current -			
Peruvian	85,413	80,630	49,386
In other countries	2,960	4,418	2,436
	88,373	85,048	51,822
Deferred -			
Peruvian	(4,786)	(11,502)	(6,325)
Total	83,587	73,546	45,497

F-63

Notes to the consolidated financial statements (continued)

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

	2006 US\$(000)	2005 US\$(000)
Assets		
Allowance for loan losses, net	13,642	12,177
Stock appreciation rights provision	11,047	6,428
Reserve for sundry risks, net	3,412	6,788
Tax loss carry-forward	3,244	3,287
Non-accrued interest	1,830	1,613
Other	4,841	2,673
Deferred income tax asset	38,016	32,966
Liabilities		
Unrealized net gains	(28,330)	(19,094)
Intangibles assets, net	(26,168)	(592)
Leasing operations, net	(2,758)	(3,257)
Fixed assets, net	(2,304)	(5,369)
Other (includes assets seized)	(6,250)	(2,422)
Deferred income tax liability	(65,810)	(30,734)
Net deferred income tax liability (asset)	(27,794)	2,232

A portion of the Group's deferred tax asset arises from part of the provisions for sundry risks and for loan losses, which are not deductible for income tax purposes until they comply with all the requirements established by the tax authorities. Therefore, the Group has recorded an accumulated deferred tax asset to reflect the future tax benefit of the deduction of these provisions.

Credicorp and its Subsidiaries have recorded deferred income taxes directly in other reserves in the statement of changes in equity of US\$9.2, US\$1.5 and US\$10.4 million, for 2006, 2005 and 2004, respectively. Such amounts represent the income tax effects of unrealized gains and losses on securities available for sale. Likewise, in 2006, the Group has registered the deferred tax liability corresponding to the acquisition of AFP Union Vida (note 2(a)) by approximately US\$25.6 million.

(d) The Peruvian tax authorities have the right to review and, if necessary, amend the annual tax returns of the Peruvian subsidiaries up to four year after its presentation. The most important subsidiaries subject to these reviews are BCP and PPS. In BCP, the fiscal years 2001, 2002 and 2003, have been reviewed by the tax authorities. As a result of such revisions, no significant additional taxes have arisen in excess of the previously accounted for in the Group consolidated financial statements.

Notes to the consolidated financial statements (continued)

The years 2004 to 2006 for BCP and PPS, are pending of review. Any additional tax arising as a result of the tax authority examination will be charged to income in the year when such tax is determined. At present, it is not possible to estimate the adjustments that the tax authorities may determine; however, in Management's opinion, it is not expected that any additional assessments will be determined in amounts considered significant to the consolidated financial statements as of December 31, 2006 and 2005.

19. Stock appreciation rights

As indicated in note 3(t), Credicorp has granted stock appreciation rights (SARs) to certain key executives and employees who have at least one year's service in Credicorp or any of its subsidiaries. The SARs expire after eight years and 25 percent of them may be exercised during each of the first four years of the plan.

At the end of the fourth year and until the expiration date of the SARs, all of the unexercised SARs may be exercised at any time. As of December 31, 2006 and 2005, 948,925 and 662,200 SARs had been exercised under this plan for an approximate amount of US\$29.3 and US\$9.6 million, as of December 31, 2006 and 2005, respectively, plus the income tax or behalf of the executives and employees that is assumed by the Group and corresponds 30 percent of the amount paid.

The number of SARs issued and not exercised as of December 31, 2006 and 2005 and the prices of such rights as of said dates are as follows:

Year of issuance	Number of outstanding SARs issued as of December 31, 2006	Number of Vested SARs as of December 31		Exercise price	
		2006	2005	2006 US\$	2005 US\$
1999	-	-	110,000	7.64	8.34
2000	68,750	68,750	187,250	8.80	9.50
2001	81,500	81,500	192,550	5.60	6.30
2002	117,500	117,500	285,225	7.28	7.98
2003	220,000	220,000	359,844	8.47	9.17
2004	352,750	317,984	294,375	11.29	11.99
2005	457,600	281,038	229,688	16.30	17.00
2006	560,250	215,156	-	25.62	-
	1,858,350	1,301,928	1,658,932		

Notes to the consolidated financial statements (continued)

Credicorp's Management has estimated the fair value of the SARs as of December 31, 2006 and 2005, using the binomial option pricing model, with assumptions obtained from the relevant available market information, including the assuming for practical purposes that all contracts can only be exercised at the end of their term. The key assumptions used are as follows:

Key assumptions	2006	2005
Expected volatility	31.31%	28.24%
Risk free interest rate	1.05%	1.04%
Expected lifetime	5.05 years	4.70 years
Quoted price of Credicorp shares	US\$40.94	US\$22.79

The movement of the SARs for the years 2006 and 2005 are as follows:

	2006			2005		
	Outstanding SARs Number	Vested SARs Number	Vested SARs Amount US\$(000)	Outstanding SARs Number	Vested SARs Number	Vested SARs Amount US\$(000)
Balance as of January 1st	2,201,275	1,658,932	22,813	2,278,475	1,759,601	11,700
Granted and vested	621,000	600,046	12,838	585,000	561,531	7,448
Exercised	(948,925)	(948,925)	(29,292)	(662,200)	(662,200)	(9,614)
Decrease	(15,000)	(8,125)	(232)	-	-	-
Increase in fair value	-	-	32,634	-	-	13,279
Balance as of December 31	1,858,350	1,301,928	38,761	2,201,275	1,658,932	22,813

In accordance with the signed contracts, Credicorp assumes the payment of the income tax of this benefit on behalf of its executives and employees, which corresponds to 30 percent of the benefit. Credicorp estimates the amount over the basis of the liability recorded for the vested benefits and records it in the same caption of this plan.

The liabilities recorded for this plan are included in "Payroll taxes, salaries and other personnel expenses", in the caption "Other liabilities" of the consolidated balance sheets (note 11 (a)); and the expenses in the caption "Personal expenses" on the consolidated income statements. In 2006, 2005 and 2004, the SARs prices were modified and informed to the executives of the Group.

Notes to the consolidated financial statements (continued)

In the fiscal year 2006, the Group signed a contract with Citigroup by which has acquired certificates linked to the yield of Credicorp's shares, to obtain an economic hedge of the SARs granted to its executives and employees, note 11(c).

20. Off-balance sheet accounts

(a) This item is made up as follows:

	2006 US\$(000)	2005 US\$(000)
Contingent credits -		
Guarantees and stand by letters (c)	1,204,500	982,044
Import and export letters of credit (c)	250,876	238,902
	1,455,376	1,220,946
Responsibilities under credit lines agreements (e)	814,746	531,816
Forward contracts - sell (d)	561,111	654,841
Forward contracts - buy (d)	(592,081)	(343,897)
Swap contracts (d)	543,041	572,160
Total	2,782,193	2,635,866

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

Credit risk for off-balance sheet financial instruments is defined as the possibility of sustaining a loss because any other party to a financial instrument fails to perform in accordance with the terms of the contract.

The exposure to losses under commitments to guarantees, stand by letters, extend credit, provide export and import letters of credit and guarantees is represented by the contractual amount specified in these instruments. The Group applies the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments, including the requirement to obtain collateral to support off-balance sheet financial instruments (note 7(a)) when it is deemed necessary. Collateral held varies, but may include deposits held in financial institutions, securities or other assets.

Because the fact that many of the contingent transactions are expected to expire without any performance being required, the total committed amounts do not necessarily represent future cash requirements.

F-67

Notes to the consolidated financial statements (continued)

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

(d) As of December 31, 2006 and 2005, Credicorp has foreign currency forwards derivatives and a minor position on options for exchange rates (the total amount as of December 31, 2006 is US\$8.7 million). Foreign currency forwards are commitments to buy or sell currency at a future date at a contracted price. Risk arises from the possibility that the counter-party to the transaction does not perform as agreed and the change in the prices of the underlying currencies. As of December 31, 2006 and 2005, forward foreign currency purchase and sale agreements referred to above include nominal amounts of approximately US\$1,153.2 million and US\$998.7 million, respectively, which have maturities of less than a year. These agreements are executed to satisfy client requirements and are recognized in the financial statements at their fair market value. As of December 31, 2006, the forward contracts net position is an overbuy of U.S. Dollars of approximately US\$31.0 million (oversell of approximately US\$310.9 million as of December 31, 2005).

Interest rate swaps are derivatives contracts, where counter parties exchange variable interest rates for fixed interest rates, in the terms and conditions established at the contract inception. The risk arises each time the projected level of the variable rate during the term of the contract is higher than the swap rate, as well as from non-compliance with contractual terms by one of the parties. As of December 31, 2006, the notional amount of open interest rate swap contracts was approximately US\$543.0 million (approximately US\$572.2 million as of December 31, 2005). These contracts are recorded at fair value, recording both realized and unrealized gains and losses in the consolidated income statements.

As of December 31, 2006, the Group held one interest rate swap contract for a notional amount of US\$196.0 million designated as a cash flow hedge, because it reduces the exposure to the variable interest rate risk of a portion of the loan transaction entered by the Group on November 2005, note 14(b). In accordance with the hedge operation, the Group pays a fixed rate of 4.57 percent and receives a variable rate equal to the monthly Libor interest rate over the notional amount and the settlements are made on a monthly basis; the instrument matures November 2012. The loan and the interest rate swap have the same critical terms.

The fair value of the asset and liability forward contracts and swaps as of December 31, 2006 amounted approximately US\$19.1 and US\$7.8 million, respectively (approximately US\$8.8 and US\$8.0 million as of December 31, 2005) and are included under the caption "Other assets and other liabilities" of the consolidated balance sheets, respectively, note 11. As of December 31, 2006 and 2005, the fair value of the cash flow hedge amounts to US\$2.9 and US\$1.6 million, respectively, and is recorded in the net equity.

(e) The responsibilities under credit line agreements do not correspond to commitment of obtain credit; and includes credit lines and other consumer loans that are cancelable upon notification to the consumer.

Notes to the consolidated financial statements (continued)

21. Net premiums earned

Premiums earned net of insurance contract ceded to re-insurer for the three years ended December 31, 2006, 2005 and 2004 are as follows:

	Gross Premiums (*) US\$(000)	Ceded to reinsurers and coinsurers, net US\$(000)	Assumed from other companies, net US\$(000)	Net premiums earned US\$(000)	Percentage of amount assumed on net premiums %
As of December 31, 2006					
Life insurance	66,477	(2,923)	1,228	64,782	1.90
Accident and health insurance	111,295	(2,377)	1,526	110,444	1.38
Property and casualty insurance	138,964	(64,767)	1,838	76,035	2.42
Total premiums	316,736	(70,067)	4,592	251,261	1.83
As of December 31, 2005					
Life insurance	46,239	(2,537)	965	44,667	2.16
Accident and health insurance	111,785	(2,745)	1,531	110,571	1.38
Property and casualty insurance	126,377	(61,133)	(1,527)	63,717	(2.40)
Total premiums	284,401	(66,415)	969	218,955	0.44
As of December 31, 2004					
Life insurance	35,998	(2,865)	683	33,816	2.02
Accident and health insurance	108,739	(2,947)	1,481	107,273	1.38
Property and casualty insurance	107,937	(60,131)	3,777	51,583	7.32
Total premiums	252,674	(65,943)	5,941	192,672	3.08

(*) Includes the annual variation of the technical and unearned premiums reserves.

F-69

Notes to the consolidated financial statements (continued)

22. Net claims incurred for property and casualty, life and health insurance contracts

The expenses for claims at December 31, 2006, 2005 and 2004 include the following items:

	2006			Total US\$(000)
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	
Gross insurance claims	52,713	60,285	89,797	202,795
Ceded claims	(823)	(13,698)	(1,752)	(16,273)
Net insurance claims	51,890	46,587	88,045	186,522

	2005			Total US\$(000)
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	
Gross insurance claims	41,650	56,539	93,115	191,304
Ceded claims	(870)	(13,970)	(964)	(15,804)
Net insurance claims	40,780	42,569	92,151	175,500

	2004			Total US\$(000)
	Life insurance US\$(000)	Property and casualty insurance US\$(000)	Health insurance US\$(000)	
Gross insurance claims	40,625	52,707	81,198	174,530
Ceded claims	(1,954)	(17,916)	(335)	(20,205)
Net insurance claims	38,671	34,791	80,863	154,325

F-70

Notes to the consolidated financial statements (continued)

23. Other income and expenses

The items are made up as follow:

	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Other income			
Income (loss) from the sale of assets seized	9,244	6,202	(3,411)
Real estate rental income	3,031	1,941	1,224
Recoveries of other accounts receivable and other assets	1,763	4,512	1,429
Valuation of indexed certificates Citigroup, note 11 (c)	3,521	-	-
Other	8,638	8,916	8,863
Total other income	26,197	21,571	8,105
Other expenses			
Commissions in insurance	25,555	19,289	19,693
Sundry technical insurance expenses	10,910	8,183	5,931
Provision for sundry risks, note 11(e)	6,461	5,567	9,819
Provisions for other account receivables	3,163	7,112	1,435
Loss (gain) from sale of fixed assets	(169)	(1,875)	4,525
Loss from fake currencies	-	1,960	-
Other	6,798	6,509	1,466
Total other expenses	52,718	46,745	42,869

24. Earnings per share

The net earnings per ordinary share have been determined over the net income attributable to equity holders of Credicorp as follows:

	2006	2005	2004
Number of shares in issue:			
Ordinary shares, note 17(a)	94,382,317	94,382,317	94,382,317
Less - weighted average treasury shares, note 17(b)	(14,620,842)	(14,620,842)	(14,624,392)
Weighted outstanding average number of ordinary shares	79,761,475	79,761,475	79,757,925
Net income attributable to equity holders of Credicorp (in thousands of U.S. dollars)	230,013	181,885	130,747
Basic and diluted earnings per share for net income attributable to equity holders of Credicorp (in U.S. Dollars)	2.88	2.28	1.64

Notes to the consolidated financial statements (continued)

25. Business segments

The Group is organized on two main lines of business:

- (i) Banking business - incorporating corporate and private banking services, corporate, consumer, micro-business and mortgage loans, credit and debit cards, savings, deposits, overdrafts, foreign currency and derivative products, structure financing, corporate leasing, custody, among others.
- (ii) Insurance business - incorporating the issuance of policies of insurance to cover claims, such as fires, vehicles, transport, personal accidents and life insurance, among others.

In addition the Group, since 2005, maintains activities related to pension fund management, note 2(a). Other operations of the Group comprise brokerage, fund management and trusteeship.

Transactions between the business segments are realized on normal commercial terms and conditions.

F-72

Notes to the consolidated financial statements (continued)

The following table presents the Group's financial information by industry (primary segment) and geographical area (secondary segment) for the three years ended December 31, 2006, 2005 and 2004:

(i) Business segments by industry (amount expressed in million of U.S. Dollars):

	Income from External income	other segment	Eliminations	Total income (*)	Operating income (**)	Total assets	Depreciation Fixed assets	and amortization	Other provisions (***)
2006									
Banking	975	24	(24)	975	447	11,090	197	36	(2)
Insurance	316	2	(2)	316	115	989	47	4	-
Pension funds	23	-	-	23	-	227	11	10	-
Brokerage and other	58	1	(1)	58	1	576	-	-	-
Total consolidated	1,372	27	(27)	1,372	563	12,882	255	50	(2)
2005									
Banking	712	11	(11)	712	400	9,893	199	35	11
Insurance	219	14	(14)	219	80	786	46	3	-
Pension funds	-	-	-	-	-	18	2	1	-
Brokerage and other	166	3	(3)	166	3	339	1	-	-
Total consolidated	1,097	28	(28)	1,097	483	11,036	248	39	11
2004									
Banking	671	25	(25)	671	346	8,083	215	38	(2)
Insurance	193	10	(10)	193	73	700	31	3	-
Pension funds	-	-	-	-	-	-	-	-	-
Brokerage and other	115	4	(4)	115	2	305	1	1	-
Total consolidated	979	39	(39)	979	421	9,088	247	42	(2)

F-73

Notes to the consolidated financial statements (continued)

(ii) Segment information by geographical area (amounts expressed in million of U.S. Dollars):

	2006		2005			2004			
	Total income (*)	Operating income (**)	Total assets	Total income (*)	Operating income (**)	Total assets	Total income (*)	Operating income (**)	Total assets
Peru	1,131	518	9,271	947	438	8,336	809	352	6,566
Panama	55	7	839	28	3	593	20	3	293
Cayman Islands	81	14	1,364	55	13	1,238	52	20	1,004
Bolivia	62	28	654	50	23	493	45	24	459
Colombia	-	-	-	-	-	-	51	19	411
United States of America	43	(4)	754	17	6	376	2	3	355
Total consolidated	1,372	563	12,882	1,097	483	11,036	979	421	9,088

(*) Include total interest and dividend income, other income and net premiums earned from insurance activities.

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

(***) Correspond to reserves for assets seized and the allowance for loan losses.

F-74

Notes to the consolidated financial statements (continued)

26. Financial instruments

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

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

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

Market risks -

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Group applies a 'Value at Risk' methodology to estimate the market risk of main positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Management sets some limits on the value of risk that may be accepted, which is monitored on a daily basis.

The daily market value at risk measure (VAR) is an estimate of the maximum potential loss that might arise if the current positions were to be held unchanged for one trading session taking into account a specific significance level. The measurement is structured so that daily losses exceeding the VAR figure should occur, on average, not more than one trading session out of one hundred. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters used in the VAR calculation.

As VAR constitutes an integral part of the Group's market risk control regime, VAR limits are established by the Management for some trading and portfolio operations. The actual exposure against limits, together with a consolidated Group-wide VAR, is reviewed daily by the Management; however, the use of this approach does not prevent losses outside the limits established in the event of more significant market movements.

F-75

Notes to the consolidated financial statements (continued)

Liquidity risk -

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loans draw-downs, guarantees and other calls. The Group does not maintain cash resources to meet all of these needs, as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Management of the Group's subsidiaries sets limits on the minimum proportion of funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demands.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched, as transacted business is often based on uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as their mature are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment, because the Group does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

The insurance companies of the Group are exposed to requirements of cash available, mainly for contracts of insurance claims of short term. The liquidity risk is the risk that the cash may not be available to pay obligations at their maturity at a reasonable cost. The Group settles limits over the minimal proportion of the maturity funds available to meet these requirements and in a minimal level of credit lines available to cover the maturity and unexpected claims.

The insurance companies of the Group control the liquidity risk through the exposure of the maturity of their assets and liabilities. Therefore, the investment plan has been structured according the maturities in order to hedge the risk of fund requirements to cover insurance claims and others, in addition to the Group support.

The notes to the financial statements include an analysis of the main assets and liabilities of the Group by maturities based on contractual maturity dates.

Cash flow and fair value risk due to changes in the interest rates -

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

F-76

Notes to the consolidated financial statements (continued)

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise. The Group's Management sets limits on the level of mismatch of interest rate reprising that may be undertaken, which is monitored periodically.

Resources for investing are mainly obtained from short-term liabilities, the interests of which are agreed at fixed and variable interest rates prevailing in the international markets. Loans, customer deposits and other financing instruments are subject to risks derived from interest rate fluctuations. The relevant contract maturity characteristics and interest rates of such financial instruments are disclosed in notes 7, 13, 14 and 16.

F-77

Notes to the consolidated financial statements (continued)

Currency risk -

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Most assets and liabilities are maintained in U.S. Dollars.

Foreign currency transactions are made at the free market exchange rates of the countries where Credicorp's Subsidiaries are established. As of December 31, 2006 and 2005, the Group's assets and liabilities by currencies were as follows:

	2006				2005			
	U.S. Dollars US\$(000)	Peruvian currency US\$(000)	Other currencies US\$(000)	Total US\$(000)	U.S. Dollars US\$(000)	Peruvian currency US\$(000)	Other currencies US\$(000)	Total US\$(000)
Monetary assets								
-								
Cash and due from banks	2,250,111	396,238	87,181	2,733,530	2,337,939	268,416	54,460	2,660,815
Trading securities	14,144	30,800	192	45,136	39,045	21,740	-	60,785
Available-for-sale investments	1,493,043	1,904,535	53,133	3,450,711	1,583,201	1,218,424	9,080	2,810,705
Loans, net	4,181,558	1,492,681	62,583	5,736,822	3,758,385	1,032,481	25,894	4,816,760
Other assets	269,504	129,268	6,242	405,014	192,148	121,348	4,277	317,773
	8,208,360	3,953,522	209,331	12,371,213	7,910,718	2,662,409	93,711	10,666,838
Monetary liabilities -								
Deposits and obligations	(6,098,199)	(2,588,864)	(151,928)	(8,838,991)	(5,315,364)	(1,684,149)	(93,915)	(7,093,428)
Due to bank and correspondents and borrowed funds	(883,979)	(53,193)	(4,429)	(941,601)	(728,161)	(573,665)	(1,545)	(1,303,371)
Bonds issued	(334,608)	(177,964)	-	(512,572)	(278,461)	(150,763)	-	(429,224)
Other liabilities	(662,946)	(378,473)	(13,178)	(1,054,597)	(615,561)	(293,732)	(8,804)	(918,097)
	(7,979,732)	(3,198,494)	(169,535)	(11,347,761)	(6,937,547)	(2,702,309)	(104,264)	(9,744,120)
	228,628	755,028	39,796	1,023,452	973,171	(39,900)	(10,553)	922,718
Forwards position, net	30,970	(22,368)	(8,602)	-	(310,946)	310,946	-	-
Net monetary position	259,598	732,660	31,194	1,023,452	662,225	271,046	(10,553)	922,718

F-78

Notes to the consolidated financial statements (continued)

Credit risk -

The Group takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy or in the health of particular industry segment that represents a concentration in the Group's portfolio could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits in the level of credit risk by product, industry sector and by country are approved by the Board of Directors.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but there is a significant portion in personal lending where no such facilities can be obtained.

As of December 31, 2006, Group's management has estimated that the maximum credit risk at which is exposed the Group amounts to approximately US\$11,541.2 million (US\$9,602.8million as of December 31, 2005), which comprise financial assets subject to credit risk, including mainly deposits in banks, trading securities, investments available-for-sale, loans and indirect loans, without taking into consideration the market value of the guarantee or collateral. The exposure for any specific part, including banks, is further structured by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits to trading items such as forward foreign exchange contracts. Real exposures against limits are monitored daily.

Risk of the insurance activity -

The risk under any insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

F-79

Notes to the consolidated financial statements (continued)

Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a larger element of the claims provision relates to incurred but non-reported claims (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risk of the business activities carried out by individual contract holders and the risk management procedures they adopted.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. The liability for these contracts includes a provision for reported claims not yet paid and a provision for unexpired risks at the balance sheet date.

However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. This could occur as the frequency or severity, or both, of the claims and benefits are greater than the calculated. In the particular case of the survival business life (life annuities), the risk assumed by the Group consists in that the real life expectancy of the insured population is greater than the estimated at the time of issuing the policy, which would mean there would be a deficit in the reserves to carry out the pension payments.

The factors considered in the evaluation of insurance risks are the frequency and severity of the claims, the sources of uncertainty in the calculation of payments for future claims and the mortality tables for life insurance.

For this reason, for life insurance, the Group estimates conservatively and carries out a careful selection of the risks at the moment of issuing the policies to estimate the degree of risk that each policyholder presents.

At the renewal of the policies, the terms and conditions are revised according to risk changes and its results (claims past experience) and the Company may impose deductibles and other conditions in order to mitigate the risks. The insurance companies are responsible for all insured events that occurred during the duration of the contract even if the final amount of the loss is determined after the contract period.

The subsidiaries of the Group that operate in the insurance segment have automatic reinsurance coverage contracts that protect them against frequency and severity losses. The reinsurance includes coverage for excess claims and catastrophes. The objective of the reinsurance is that the total net insurance loss does not affect the net worth and liquidity of the Company in any given year.

In addition to the total Company's reinsurance program, it is possible to buy additional reinsurance protection under the automatic or facultative (voluntary) contract modality and for any situation the risk evaluation process considers it necessary.

F-80

Notes to the consolidated financial statements (continued)

The treatment of benefits as well as the sufficiency of the reserves is a principal concern of the insurance management. The technical reserves are estimated by actuaries of the insurance segment and are reviewed by independent experts. The insurance segment permanently monitors the claim trends, which allows estimates to be carried out for incurred and non-reported claims based on recent information. These estimations are also reviewed by independent experts.

In reference to reinsurance risks, the policy of the Group is to only enter into contracts with companies that are qualified as investment grade by qualified international ratings agencies.

The insurance products do not contain particularly relevant terms or clauses that could have a significant impact or represent important uncertainties to the cash flows of the insurance segment.

Fiduciary activities and management of investment and pension funds -

The Group provides custody, trustee, investment management and advisory services to third parties. The Group makes allocations and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. These services give rise to the risk that the Group will be accused of poor administration or under-performance.

As of December 31, 2006 and 2005, the assigned value of the financial assets under administration (in millions of U.S. Dollars) is as follows:

	2006	2005
Investments funds	1,124	829
Pension Funds	4,163	253
Equity managed	1,689	1,417
Total	6,976	2,499

27. Fair value

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

When a financial instrument is traded in an active and liquid market, its quoted market price in an actual transaction provides the best evidence of its fair value. When a quoted market price is not available, or may not be indicative of the fair value of the instrument, to determine such fair value, the current market value of another instrument that is substantially similar, discounted cash flow analysis or other estimation techniques may be used, all of which are significantly affected by assumptions used. Although Management uses its best judgment in estimating the fair value of these financial instruments, there are inherent weaknesses in any estimation technique. As a result, the fair value may not be indicative of the net realizable or liquidation value.

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

Notes to the consolidated financial statements (continued)

The methodologies and assumptions used to determine fair values depend on the terms and risk characteristics of the various financial instruments and include the following:

- Cash and due from banks represent cash and short-term deposits that do not represent significant credit or interest rate risks; in consequence, their book value is equivalent to their fair value.
- Trading securities and available-for-sale investments are recorded at their estimated fair value on the consolidated balance sheet.
- The fair value of loans is similar to their book value, because such loans are mainly of a short-term nature or with variable interest rates and are shown net of their respective allowance for loan losses, which are considered by the Management as the approximate recoverable amount at the date of the consolidated financial statements.
- The fair value of deposits and obligations is similar to their book value; mainly because of their liquid nature and that the interest rates are comparable with the interest rates of other similar liabilities at the consolidated balance sheet date.
- Due to banks and correspondents, borrowed loans, bonds and subordinated rates generate interest contracted at variable interest rates and/or preferred rates similar to the actual rates in the market. As a result, it is considered that their book value approximates their fair values.
- As disclosed in note 20, the Group has various commitments to extend credit, open documentary credits and outstanding guarantees and has received guarantees in endorsement of the granted credits. Based on the level of fees currently charged from granting such commitments and open documentary credits, taking into account maturity and interest rates, together with the present creditworthiness of the counterparties, the difference between the book value and the fair value is not deemed to be material.
- Except for currency forwards, options over exchange rates, interest rate swaps and the certificate indexed of Citigroup, as indicated in note 20(d), and 11(a), the Group does not enter into other agreements, generally described as derivative transactions. The Group records these derivatives in the consolidated balance sheets at their fair market value.

Based in the aforementioned analysis, as of December 31, 2006 and 2005, the management of the Group considers that book values of the financial instruments do not differ significantly from their estimated market value.

F-82

Notes to the consolidated financial statements (continued)

28. Transactions with related parties

(a) The consolidated financial statements of the Group as of December 31, 2006 and 2005 include the transactions with related parties of the companies mentioned in note 3(b). For its 2006 and 2005 financial statements, the Group defines related parties as related companies, the Board of Directors, the Group's key executives (defined as the management of Credicorp's Holding) and enterprises which are controlled by these individuals through their majority shareholding or their role as chairman or CEO in those companies.

(b) The following table shows the main transactions with related companies as of December 31, 2006 and 2005:

	Related companies	
	2006 US\$(000)	2005 US\$(000)
Direct loans	70,636	48,533
Unrealized gain from investments	34,226	23,393
Investments available por sale	27,899	21,815
Deposits	25,074	21,305
Contingent operations	13,925	8,379
Interest income related to loans	2,097	1,991
Interest expense related to deposits	1,505	991
Derivatives (market value)	179	388
Other income	953	546

(c) The loans, contingent operations and derivative contracts with related parties are made in accordance with the normal market conditions available to other customers. Outstanding loans balances at the year-end are granted by collaterals given by the related part. The loans to related companies as of December 31, 2006 had a maturity between January 2007 and August 2012 and an accrued interest average of 7.71%. As of December 31, 2006, the provision for doubtful debts due to related parties amounts to US\$0.1 million (US\$1.4 million as of December 31, 2005). This amount is established based on an assessment performed on a continuous basis in the financial position of the related party and the market where it operates.

Notes to the consolidated financial statements (continued)

(d) As of December 31, 2006 and 2005, directors, officers and employees of the Group have been involved, directly and indirectly, in credit transactions with certain subsidiaries of the Group, as permitted by Peruvian Law N°26702, which regulates and limits certain transactions with employees, directors and officers of a bank or an insurance company in Peru. As of December 31, 2006 and 2005, direct loans to employees, directors and key management amounts to US\$59.5 and US\$25.1 million, respectively and are paid monthly during their loan enforce and earn interest at similar market rates for these loans.

The Group does not maintain loans to the directors and key personnel which are guaranteed with shares of Credicorp or other companies of the Group.

(e) The Group key executives compensation as of December 31, 2006 and 2005, comprises the following captions:

	2006 US\$(000)	2005 US\$(000)
Stock appreciation rights, note 19	23,206	7,284
Salaries	4,824	4,357
Directors compensations	1,173	1,115
Other	6,962	2,185
Total	36,165	14,941

The Group key executives compensation comprises all the payments received by them, including the taxes assumed by the Group.

F-84

Notes to the consolidated financial statements (continued)

29. Significant differences between International Financial Reporting Standards and United States Generally Accepted Accounting Principles

The accompanying consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). A description of the significant differences between IFRS and U.S. generally accepted accounting principles (U.S. GAAP) are as follows:

(a) Allowance for credit losses -

Management believes that there is no significant difference between the amount of the allowance for credit losses provided under IFRS and the required allowance that would be provided under U.S. GAAP. Management believes that the allowance for credit losses was adequate at December 31, 2006 and 2005 to cover any known losses and any losses that have not been specifically identified in the loan portfolio.

(b) Investments in debt and equity securities -

The Group applied IAS 39 “Financial Instruments: Recognition and Measurement” to record its investments in debt and equity securities. The accounting treatment established by IAS 39 is similar to that required by SFAS 115, except as mentioned in paragraph (c) below.

The reconciling items included in paragraph (i) for the years 2006, 2005 and 2004 correspond to the reclassification of the unrealized gains and losses related to investments that are available-for-sale from “Other reserves” to “Other Comprehensive Income”.

(c) Foreign exchange differences on available-for-sale debt securities -

Under IFRS, IAS 39 established that the exchange differences related to the amortized cost of all financial instruments categories, including available-for-sale debt securities, must be recorded in the income statement.

Under U.S. GAAP, EITF 96-15, established that the change in the fair value of available-for-sale debt instruments due to changes in foreign currency exchange rates (including those related to the amortized cost) are carried in shareholder’s equity (other comprehensive income) and transferred to income upon sale or maturity of the instrument.

Until December 31, 2005, the Group did not consider this difference in its reconciliation from IFRS to U.S. GAAP. As result, the statements of “Income” and “Other Comprehensive income” for the years 2004 and 2005 below have been restated to present this difference, as shown in paragraphs (g), (h) and (i) below. This difference does not have any effect in shareholders’ equity.

In addition, the Group has determined that due to the exchange difference loss for the year 2005, there was an “Other-than-temporary impairment” on such investments of US\$8,912. This amount has been included in the reconciliation adjustment in 2005.

F-85

Notes to the consolidated financial statements (continued)

This adjustment affects the caption “Translation Result” in the consolidated income statement prepared in accordance with IFRS.

(d) Amortization of goodwill -

Since March 2004, Credicorp has adopted IFRS 3, “Business Combinations”; as a result the goodwill recorded has been amortized until December 31, 2004. In accordance with the disposals of IFRS 3, since January 1st, 2005, the Group has ceased the amortization of goodwill. The accumulated amortization as of December 31, 2004 has been eliminated with a corresponding decrease in the cost of goodwill.

SFAS 142, “Goodwill and Other Intangibles” establishes that the goodwill should be assigned to a reporting unit, which is defined as an operating unit or a component of an operating unit. Also, the goodwill is not subject to amortization since December 31, 2001, and should be tested for impairment at least annually. In this respect, the Group made the analysis and evaluation of the impairment of goodwill as of December 31, 2006 and 2005, and no impairment loss was required.

(e) Income taxes -

As mentioned in Note 3 (r), income tax is recorded in accordance with IAS 12, “Income Taxes”, which, among other provisions, requires the recognition of deferred taxes on the translation differences arising in the remeasured of assets and liabilities from local currency into the functional currency.

Under U.S. GAAP, the Company follows the guidelines established in SFAS 109 “Accounting for Income Taxes”. This statement does not permit recognition of deferred taxes for differences related to assets and liabilities that are remeasured from local currency into the functional currency resulting from changes in exchange rates.

In prior years, the differences for this matter between IFRS and U.S. GAAP calculations have been immaterial; hence no reconciliation item has been reported for 2004 and 2005. Due to the variation in this difference during 2006, the Group has incorporated it in the reconciliation between IFRS and U.S. GAAP figures in 2006, the amount of this difference is US\$5.1 millions as of December 31, 2006. This item is presented to reconcile the net income and the shareholder’s equity in paragraphs (g) and (h) below.

(f) Minority interest -

Under U.S. GAAP, shareholder’s equity and net income is made up only of the equity portion attributed to equity holders of the Parent.

However, under IFRS equity and net income includes the equity and net income corresponding to the shareholders of both the Parent and the minority interests. Therefore, there is an adjustment to exclude the Minority Interests portion of shareholder’s equity and net income, see paragraphs g) and h). The adjustment included in the income statement and shareholder’s equity reconciliation, also include the effect of minority interest on other U.S. GAAP adjustments.

Notes to the consolidated financial statements (continued)

(g) Summary of significant adjustments to net income -

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

	For the year ended December 31,		
	2006 US\$(000)	2005 US\$(000)	2004 US\$(000)
Net income in accordance with IFRS	247,265	194,853	141,512
Additions (deductions) reported:			
Foreign exchange differences on available-for-sale debt securities (c)	(55,155)	-	-
Income taxes (e)	(5,129)	-	-
Reversal of amortization of goodwill (d)	-	-	4,853
Minority interest (f)	(11,957)	(12,968)	(10,765)
Net income in accordance with U.S. GAAP, as previously reported	175,024	181,885	135,600
Foreign exchange differences on available-for-sale debt securities, net of impairment of US\$8,912 in 2005 (c)	-	53,293	(16,404)
Minority interest	-	(5,055)	3,258
Net income in accordance with U.S. GAAP, as restated	175,024	230,123	122,454
Net income per share in accordance with U.S. GAAP based on weighted average number of shares issued and outstanding, as previously reported	2.19	2.28	1.70
Net income per share in accordance with U.S. GAAP based on weighted average number of shares issued and outstanding, as restated	2.19	2.89	1.54
Weighted average number of outstanding shares issued and outstanding, excluding treasury stock (in thousands of shares)	79,761	79,761	79,758

F-87

Notes to the consolidated financial statements (continued)

(h) Summary of significant adjustments to shareholders' equity -

A summary of the significant adjustments that would be required to determine the shareholders' equity of the Group under U.S. GAAP instead of under IFRS are as follows:

	2006 US\$(000)	As of December 31, 2005 US\$(000)	2004 US\$(000)
Shareholders' equity in accordance with IFRS	1,533,768	1,291,955	1,150,450
Additions (deductions):			
Minority interest (f)	(136,946)	(101,515)	(85,253)
Income taxes, net of minority interest (e)	(4,987)	-	-
Reversal of amortization of goodwill (d)	12,109	12,109	12,109
Shareholders' equity in accordance with U.S. GAAP	1,403,944	1,202,549	1,077,306

The changes in shareholders' equity of the Group under U.S. GAAP are summarized below:

	2006 US\$(000)	For the year ended December 31, 2005 US\$(000) (As restated)	2004 US\$(000) (As restated)
Balances as of January 1	1,202,549	1,077,306	917,986
Cash dividends	(87,738)	(63,810)	(31,900)
Decrease in treasury stock	-	-	263
Other comprehensive income (loss)	114,109	(41,066)	68,527
Net income under U.S. GAAP (g)	175,024	230,123	122,454
Other	-	(4)	(24)
Balances as of December 31	1,403,944	1,202,549	1,077,306

F-88

Notes to the consolidated financial statements (continued)

(i) Other comprehensive income -

	For the year ended December 31,		
	2006 US\$(000)	2005 US\$(000) (As restated)	2004 US\$(000) (As restated)
Net income in accordance with U.S.GAAP	175,024	230,123	122,454
Other comprehensive income (loss) -			
Unrealized (losses) gains arising during the period, net of tax and minority interest (*)	85,372	(26,920)	70,942
Transfer of realized losses (gains) to net income (**)	27,421	(15,768)	(2,415)
Net gain on cash flow hedge.	1,316	1,622	-
	114,109	(41,066)	68,527
Comprehensive Income	289,133	189,057	190,981

(*) Include exchange differences for US\$15,961, US\$(34,041) and US\$14,196 in 2006, 2005 and 2004, respectively, net of minority interest.

(**) Include exchange differences for US\$34,041, US\$(14,196) and US\$(1,050) in 2006, 2005 and 2004, respectively, net of minority interest.

Cumulative other comprehensive income (loss) is as follows:

	For the year ended December 31,		
	2006 US\$(000)	2005 US\$(000) (As restated)	2004 US\$(000) (As restated)
Beginning balance	49,261	90,327	21,800
Current period changes	114,109	(41,066)	68,527
Ending balance	163,370	49,261	90,327

As result of the inclusion of the foreign exchange difference as part of the unrealized gains (losses) in available-for-sale debt securities, the amounts presented in Note 6 for 2006 and 2005 for U.S. GAAP purposes are as follow:

Notes to the consolidated financial statements (continued)

	2006			Estimated market value US\$(000)
	Amortized Cost US\$(000)	Unrealized gross amount		
		Gains US\$(000)	Losses US\$(000)	
Fixed maturity -				
BCRP deposit certificates	1,265,351	12,262	-	1,277,613
Government treasury bonds	471,615	63,982	(1,617)	533,980
Other	1,359,237	39,962	(4,528)	1,394,671
	3,096,203	116,206	(6,145)	3,206,264
Shares -	96,486	119,989	(292)	216,183
	3,192,689	236,195	(6,437)	3,422,447
Accrued interest				28,264
Total				3,450,711

	2005			Estimated market value US\$(000)
	Amortized cost US\$(000)	Unrealized gross amount		
		Gains US\$(000)	Losses US\$(000)	
Fixed maturity -				
BCRP deposit certificates	1,180,484	-	(34,669)	1,145,815
Government treasury bonds	367,866	20,662	(1,374)	387,154
Other	1,088,169	18,651	(7,742)	1,099,078
	2,636,519	39,313	(43,785)	2,632,047
Shares -	72,218	91,113	(749)	162,582
	2,708,737	130,426	(44,534)	2,794,629
Accrued interest				16,076
Total				2,810,705

F-90

Notes to the consolidated financial statements (continued)

The unrealized losses for 2005 have existed for less than 12 months and such amounts are presented net of a permanent impairment of US\$ 8,912; which has been fully realized during 2006.

(j) Commitments and guarantees -

The disclosures required for FIN 45 applicable to Credicorp's operations are as follow:

Commitments to extend credit -

The Group does not have commitments to extend credit. The caption "responsibilities under credit lines agreements" (see note 20), correspond to consumer credit lines and other consumer loans that are cancelable upon notification to the consumer. In addition, these credit lines generally have fixed expiration dates or other termination clauses. The contractual amount of the credit line represents the Company's exposure to credit loss, in the event of default by the borrower and by the amount of the credit line used at the default date. The Group manages this credit risk by using the same credit policies it applies to loans. Collateral is obtained to commercial commitments based on management's credit assessment of the borrower. Since the Group expects many of the commitments to expire without being drawn, or to cancel them in case of client default as allowed by the contracts signed, total responsibilities under credit lines agreements amounts do not necessarily represent the Group's future liquidity requirements. The contract or notional amounts of these credit lines at December 31, 2006 and 2005, were as follows:

	2006			2005		
	Expire within 1 year US\$(000)	Expire after 1 year US\$(000)	Total US\$(000)	Expire within 1 year US\$(000)	Expire within 1 year US\$(000)	Total US\$(000)
Consumer credit cards	-	814,745	814,745	-	531,816	531,816
Commercial	-	-	-	-	-	-
	-	814,745	814,745	-	531,816	531,816

Letters of credit and guarantees -

Standby letters of credit are conditional commitments the Group issues to guarantee the performance of a customer to a third-party. The guarantees frequently support public and private borrowing arrangements, including commercial paper issuances, bond financings and other similar transactions. The Group issues commercial letters of credit on behalf of customers to ensure payment or collection in connection with trade transactions. In the event of a customer's nonperformance, the Group's credit loss exposure is the same as in any extension of credit, up to the letter's contractual amount. Management assesses the borrower's credit to determine the necessary collateral, which may include marketable securities, real estate, accounts receivable and inventory. Since the conditions requiring the Group to fund letters of credit may not occur, the Group expects its liquidity requirements to be less than the total outstanding commitments. The maximum potential future payments guaranteed by the Group under letters of credit and guarantee arrangements as of December 31, 2006, were approximately US\$1,204.5 million (approximately US\$982.0 million as of December 31, 2005) with a weighted average term of approximately 24 months. The estimated fair value of standby letters of credit and guarantees was approximately US\$1.0 million as of December 31, 2006 (approximately US\$0.8 million as of December 31, 2005). The contract or notional amounts of letters of credit and guarantees at December 31, 2006 and 2005, were as follows:

Notes to the consolidated financial statements (continued)

	Expire within 1 year US\$(000)	2006 Expire after 1 year US\$(000)	Total US\$(000)	Expire within 1 year US\$(000)	2005 Expire after 1 year US\$(000)	Total US\$(000)
Standby letters of credit and guarantees	1,195,790	8,710	1,204,500	944,598	37,446	982,044
Import and export letters of credit	250,466	410	250,876	238,902	-	238,902
	1,446,256	9,120	1,455,376	1,183,500	37,446	1,220,946

(k) Recently Issued US Accounting Standards

- Stock-Based Compensation -

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Shared Based Payments (SFAS 123R). This statement eliminates the option to apply the intrinsic value measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" to stock compensation awards issued to employees. Rather, SFAS 123R requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award - the requisite service period (usually the vesting period). SFAS 123R applies to all awards granted after the required effective date, December 15, 2005, and to awards modified, repurchased, or cancelled after that date. SFAS 123R was effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005 and therefore we applied this standard for U.S. GAAP purposes in the fiscal year beginning January 1, 2006 and as a result, there were not any material effect on its financial position, results of operations or cash flows.

Notes to the consolidated financial statements (continued)

(l) Other Issued US Accounting Standards

-FASB Staff Position (FSP) FAS 115-1 and FAS 124-1 “The Meaning of Other- Than- Temporary Impairment and its Application to Certain Investments” -

In November 2005, the FASB issued FASB Staff Position (FSP) FAS 115-1 and FAS 124-1 “The Meaning of Other-Than- Temporary Impairment and its Application to Certain Investments”. The FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Credicorp adopted the FSP on January 1, 2006. The adoption of the standard did not have a significant impact on its financial condition or results of operations.

-Staff Accounting Bulletin (SAB) No. 108 “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” -

In September 1, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108 “Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements” (SAB 108). SAB 108 expresses the SEC Staff’s views regarding the process of quantifying financial statement misstatements. SAB 108 states that in evaluating the materiality of financial statement misstatements, a corporation must quantify the impact of correcting misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for the year ended December 31, 2006. The application of SAB 108 did not have an impact on the Group’s financial condition and results of operations.

(m) Recently issued US accounting standards not yet adopted

-Statement of Financial Accounting Standard No. 155: “Accounting for Certain Hybrid Instruments”- an amendment of FASB Statements 133 and 140.

In February 2006, the FASB issued Statement of Financial Accounting Standard No. 155, Accounting for Certain Hybrid Instruments, an amendment of FASB Statements No. 133 and 140 (SFAS 155). SFAS 155 permits Credicorp to elect to measure any hybrid financial instrument at fair value, with changes in fair value recognized in net profit, if the hybrid instrument contains an embedded derivative that would otherwise require bifurcation under SFAS 133. The election to measure the hybrid instrument at fair value is made on an instrument-by-instrument basis and is irreversible. SFAS 155 is effective after the beginning of an entity’s first fiscal year that begins after September 15, 2006, with early adoption permitted in certain circumstances. At adoption of SFAS 155, any difference between the total carrying amount of the individual components of an existing hybrid instrument and the fair value of the combined hybrid financial instrument is recognized as a cumulative-effect adjustment to beginning retained earnings. Credicorp did not elect to early adopt SFAS 155 and, therefore, will adopt the new standard as of 1 January 2007. Credicorp does not believe that SFAS 155 will have a significant impact on its consolidated financial statements.

F-93

Notes to the consolidated financial statements (continued)

-Statement of Financial Accounting Standard No. 156, "Accounting for Servicing of Financial Assets" (SFAS 156)- and amendment of FASB Statement 140

In March 2006, the FASB issued Statement of Financial Accounting Standard No. 156, Accounting for Servicing of Financial Assets (SFAS 156). SFAS 156 addresses the accounting for recognized servicing assets and servicing liabilities related to certain transfers of the servicer's financial assets and for acquisitions or assumptions of obligations to service financial assets that do not relate to the financial assets of the service and its related parties. SFAS 156 requires that all recognized servicing assets and servicing liabilities are initially measured at fair value and subsequently measured at either fair value or by applying an amortization method for each class of recognized servicing assets and servicing liabilities. SFAS 156 is effective in fiscal years beginning after September 15, 2006. The adoption of SFAS 156 is not expected to have a material impact on Credicorp's Financial Statements.

-FIN 48, "Accounting for Uncertainty in Income Taxes" - an interpretation of SFAS 109 - In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109*, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions. FIN 48 is effective for years commencing after December 15, 2006. Credicorp is continuing to evaluate the impact of FIN 48 on its Financial Statements.

-Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157) - In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands the required disclosures about an entity's fair value measurements. Additionally, SFAS 157 eliminates the requirement to defer calculated profit or loss on transaction values that include unobservable inputs ("Day 1 profit and loss") and eliminates the use of block discounts for securities traded in an active market. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The provisions of SFAS 157 should be applied prospectively upon initial adoption, except for the provisions that eliminate prior measurement guidance regarding block discounts and Day 1 profit and loss. These changes should be applied retrospectively as an adjustment to the opening balance of retained earnings in the period of adoption. Credicorp is still assessing the impact that SFAS 157 will have on its Financial Statements.

-Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" (SFAS 159) -

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159). This new standard permits entities to irrevocably choose to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are recognized in net profit at each subsequent reporting date. The election in SFAS 159 is similar, but not identical, to the fair value option in IAS 39. The fair value option in IAS 39 is subject to certain qualifying criteria not include in this standard, and it applies to a slightly different set of instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted only if the provisions of SFAS 157 are also applied. Credicorp is currently assessing the impact SFAS 159 will have on its Financial Statements.