

Credicorp Ltd.

Fourth Quarter 2024

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CORPORATE PARTICIPANTS

Milagros Ciguenas - *Investor Relations*

Gianfranco Ferrari - *Chief Executive Officer*

Alejandro Perez-Reyes - *Chief Financial Officer*

Cesar Rios - *Chief Risk Officer*

PRESENTATION

Operator

Good morning, everyone. I would like to welcome you to the Credicorp Limited Fourth Quarter 2024 Conference Call. A slide presentation will accompany today's webcast, which is available in the Investors section of Credicorp's website. Today's conference call is being recorded. As a reminder, all participants will be in listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you are connected to the call using the HD webphone on your computer, please use the keypad on your computer screen. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

Now, it is my pleasure to turn the conference over to Credicorp's IRO, Milagros Ciguenas. You may begin.

Milagros Ciguenas

Thank you. And good morning, everyone. Speaking on today's call will be Gianfranco Ferrari, our Chief Executive Officer; and Alejandro Perez-Reyes, our Chief Financial Officer. Participating in the Q&A session will also be Francesca Raffo, Chief Innovation Officer; Cesar Rios, Chief Risk Officer; Diego Cavero, Head of Universal Banking; and Cesar Rivera and Carlos Sotelo. Cesar Rivera is CEO of Pacifico and Carlos Sotelo is Mibanco's Chief Financial Officer.

Before we proceed, I would like to make the following Safe Harbor statement. Today's call will contain forward-looking statements, which are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties. And I refer you to the forward-looking statements section on our earnings release and recent filings with the SEC. We assume no obligation to update or revise any forward-looking statements to reflect new or changed events or circumstances.

Gianfranco Ferrari will start the call with remarks on a brief overview of our results and business strategy developments for 2024, followed by Alejandro Perez-Reyes, who will comment on the macro environment improvements, our financial performance and provide our outlook for 2025.

Gianfranco, please go ahead.

Gianfranco Ferrari

Thank you, Milagros. Good morning, everyone. I'm very pleased with our full year results, delivering record profitability of S/5.5 billion and an ROE of 16.5%, which equals 17.2% aligned to our guidance, while excluding one-off charges related to the Sartor case.

Operationally, the fourth quarter was robust, with improved cost of risk at BCP and Mibanco, increased lending and exceptional transactional volumes at BCP and Yape, providing a strong foundation for sustained growth in the years ahead. These achievements underscore the impact of our strategic initiatives, which have strengthened resilience, enhanced efficiency and reinforced our competitive advantages. This enabled us to navigate periods of volatility effectively while capitalizing on market opportunities to drive future growth and further advance our strategy of the cap limit from the macroeconomic cycles.

Our efforts align well with Peru's economic recovery, which saw GDP expand by over 3% in 2024 after contracting in 2023. Inflation fell to 2.2%, its lowest level in four years as the Central Bank lowered its policy rate to support the recovery. Improved weather boosted fishing, primary manufacturing and agriculture, while strong copper and record high coal prices further supported economic performance.

Despite gain from increased public investment, private sector investment remains subdued. Achieving long-term sustainability growth will require political stability, responsible fiscal policies and structural improvements in essential services to fully restore business confidence.

Looking ahead, we expect the Peruvian economy to grow around 3% in 2025, supported by historically high terms of trade, controlled inflation and continued recovery in real wages. However, the onset of the electoral campaign towards the end of the year may introduce uncertainty as campaign activities intensify.

Reported ROE came in slightly below expectations as we chose to prioritize client relationships and mitigate the risks related to the Sartor matter in the fourth quarter. However, adjusting for this, we would have delivered an ROE of 17.2% in line with expectations.

Our results were primarily driven by strong results at our Universal Banking and Insurance and Pension business lines alongside continued improved performance at Mibanco. This was further supported by growth in diversified revenue streams at record high transactional volumes, particularly in FX and digital transactions during the fourth quarter.

This shift enhances our revenue mix, advancing our strategy to diversify revenue income sources with the goal of achieving 10% of risk adjusted revenues from new businesses by 2026. Risk adjusted NIM continued to strengthen, underpinned by disciplined interest rate management, our leading low cost funding position and enhanced credit risk management.

Meanwhile, our investments in innovation and digital capabilities are delivering tangible results, driving a better than expected efficiency ratio, reinforcing our competitive advantages and deepening client relationships. Client satisfaction also improved with a five percentage point increase in average NPS across our businesses, while these efforts also promote greater financial inclusion.

Lastly, the significant asset quality improvement since late 3Q of 2024 has led us to gradually increase our risk appetite and allow for a more proactive lending approach at both BCP and Mibanco, particularly in the Retail segment, reflecting the improved operating conditions.

Please move to Slide 3. We're advancing our strategic priorities to proactively address challenges and capitalize on opportunities, ensuring our long-term competitiveness. These priorities are attracting and retaining top talent through our compelling value proposition, accelerating digital transformation and innovation and integrating sustainability into our core business strategy.

We cultivate innovating teams with a growth mindset, aligning their purpose with creditors to unlock potential. Through continuous training and development, we're making Credicorp an increasingly agile organization that enhances both efficiency and experience.

Our strong value proposition led to a 12-point employee NPS increase, making Credicorp Peru's top employer brand for executives. Additionally, five of our companies are number one in their respective categories in the Merco Talento Peru reputational ranking. To further reinforce our identity, we launched Credicorp Culture, a strategic framework built on shared values of teamwork, and vision, innovation, customer centricity and ethics.

We drive the digital transformation and innovation by enhancing AI and cybersecurity capabilities. Over the past decade, we've advanced data and analytics and technology, boosting productivity and customer experience. AI-driven initiatives, such as improved voice response at BCP contact centers, have increased self-servicing tractions to 40%.

Moreover, the implementation of GitHub Copilot among over 1,500 developers boosted productivity by over 30%. We strengthened internal cybersecurity management, invested in new technologies and improved processes to elevate protection standards. Recognizing that cybersecurity is an ongoing priority, we continuously monitor and adopt and are up to emerging threats while keeping both employees and clients with enhanced digital security practices.

We integrate sustainability into our strategy to drive meaningful change. As a leader in financial inclusion and education in Peru, we have brought over 5.7 million people into the financial system since 2020 and expanded access to insurance with more than 3.6 million inclusive policies issued. We've also allocated over \$1.5 billion in sustainable financing across agriculture, fishing, energy and textile sectors. These are just a few of our many initiatives aimed at improving lives and reducing poverty in Peru.

Looking ahead, we will continue to focus on these three fundamental pillars, talent, digital transformation and sustainability, as key drivers of Credicorp's long-term success.

Now let's turn to a summary of the performance across our business units and disruptive initiatives. Our balanced portfolio innovation strategy, including disruptive initiatives, allowed Credicorp to decouple from that macro and drive resilience, profitability and long-term value creation.

At BCP, we prioritized customer experience and long-term competitiveness through investments in digital channels like Yape and Mobile Banking, which drive exponential transaction growth. We now have 26% digital customers. Our branch modernization efforts, including quick service modules and digital education funds supports this evolution. Additionally, we improved multichannel value propositions, raised NPS across segments, while our focus on optimized credit risk management in consumer and SME segments is unlocking significant growth potential.

Mibanco's performance improved, driven by the broader economic recovery, enhanced risk management and operational efficiency improvements. Our hybrid model helped navigate an acute cycle in Peru's micro finance system, supporting clients with great facilities and training. We shifted to lower volume, higher profit credit tickets, improved monitoring and collection and implemented more effective risk control than our peers.

We also attracted savings, diversifying income and strengthening resilience, boosting customer NPS by over four percentage points and turning in solid results in the quarter. Looking ahead, we're exploring additional synergies with Credicorp to drive further structural improvements to achieve our minimum target of 20% of ROE.

Pacifico served over 6.5 million clients in 2024, expanding its offerings through commercial partnerships and leveraging the Credicorp ecosystem with a particular focus on retail via bancassurance and Yape. We developed a new strategic alliance, including a collaboration with Falabella in embedded insurance. As a result, our NPS increased two percentage over the year. Our commitment to enhancing digital capabilities supports our ambition of making Peru the most protected country in Latin America.

At Credicorp Capital, we recovered income and profitability driven by capital markets and wealth management, with growth in assets under management. These results reaffirm the strength of our strategic approach. Following the Chilean Financial Markets Commission intervention of Sartor, a third-party fund manager, we prioritized client interest by proactively protecting their investments in our factoring funds. While we expect a partial recovery of funds, our actions reaffirm our commitment to long-term client relationships.

We continue to drive revenue growth through our consolidated innovation strategy. Yape, now Peru's

most recognized brand, reached profitability in 2024 with nearly 14 million active users. As a leading payments platform, Yape has nearly doubled its transaction volume in 2024, expanded credit access with 1.8 million users with credit and became Peru's fifth largest e-commerce player. In Bolivia, Yape has emerged as a top digital wallet with over 1.2 million active users.

Krealo, our corporate venture capital arm, remains at the forefront of innovation with Tenpo in Chile set to become the country's first neobank, already serving over 750,000 users. Strategic internal collaborations, like Monokera, a platform linking insurance to digital channels, is enabling Yape to become a digital insurance distributor for Pacifico.

With that, I will now turn the call over to Alejandro, who will go into the highlights of the quarter and provide further detail on the macro environment, each of our operating businesses and our consolidated results. Alejandro?

Alejandro Perez-Reyes

Thank you, Gianfranco, and good morning, everyone. As Gianfranco mentioned, we delivered solid operating results in 2024 and are well positioned for a strong 2025. Our 16.5% ROE was negatively impacted by S/259 million one-off related to the Sartor case this quarter. Excluding these charges, the ROE would have been 17.2%.

As I discuss the quarter's highlights, I will focus on the quarter-over-quarter results to emphasize recent shifts in key operating trends. Loans expanded 0.7%, measured in average daily balances, and 2.2% in quarter end balances. This expansion was primarily driven by short-term corporate loans, government program loans at SME business and mortgage loans.

Asset quality further improved this quarter. The NPL ratio dropped 60 basis points to 5.3%, driven by BCP and Mibanco. At BCP, the NPL contraction was led by SMEs and wholesale clients. Provisions fell 14.4%, fueled an improvement in payment performance after the risk management measures at both BCP and Mibanco continued to bear fruit. As a result, the cost of risk fell to 2.1%.

Net interest income increased by 1.1%, primarily driven by a decrease in interest expenses via a drop in interest rates and by growth in low-cost deposits, which now represent 56.4% of the funding base. The yield on interest-earning assets, however, fell 20 basis points as the asset mix shifted towards cash and equivalents and market interest rates dropped. Consequently, NIM fell 9 basis points to stand at 6.3%.

Noninterest income expanded this quarter. However, fee income contracted slightly by 0.4% due to a drop in brokerage results at Credicorp Capital. This evolution was offset by a 29.4% increase in gain on FX transactions which was boosted by BCP Bolivia and BCP.

Lastly, the insurance underwriting results rose 7.2%, reflecting a stronger reinsurance result in the P&C business. All-in-all, we delivered ROE of 13.3% this quarter, supported by steady revenue dynamics and asset quality improvement, but nonetheless, impacted mainly by one-off charges and seasonal expenses.

Next slide, please. The Peruvian economy struck a more positive note at year-end in 2024, recovering from a contraction in 2023, which interrupted 25 years of constant growth except for the pandemic. The economy grew around 4% year-over-year in the fourth quarter of 2024 and 3.2% for the year and inflation is well controlled at 2%, one of the lowest figures among both advanced and developing economies. Thanks to solid external accounts, the Peruvian sol is one of the best performing currencies in emerging markets. Credit rating agencies have upgraded their outlook for Peru from negative to stable, reducing the risk of a downgrade in the near-term.

In 2025, the economy is expected to transition from early stage to mid-cycle recovery. Some indicators that this phase has begun are already evident. For example, recovery has broadened to include laggards such as car sales, local sales tax revenue and imports, which are now experiencing growth. Additionally, employment and real wages continue to gradually recover. And according to the Central Bank survey, investment expectations have recently accelerated and stood in the optimistic range throughout the second half of the year and a moderate improvement in prior investment is anticipated.

We expect the Peruvian economy to grow around 3% for the second consecutive year in 2025 despite uncertainty on the global front and a pre-electoral environment in Peru. Dynamism should continue to pick up in the first half of the year. Finally, we anticipate GDP growth of 2.4% in Chile and 2.1% in Colombia.

Next slide, please. Expectations for Federal Reserve rate cuts have diminished, with some analysts even suggesting that the cuts are over. President Trump's recent announcements aligned with his campaign promises and underscores his administration's intent to leverage tariffs as negotiating tools. Consequently, increased market volatility is anticipated during his presidency due to heightened uncertainty. In Peru, as mentioned earlier, inflation is under control at 2%. The Central Bank has cut its policy rate 300 basis points since September 2023 and is expected to implement one or two additional rate cuts throughout the year as it approaches its neutral level.

In Colombia, inflation ended the year at 5.2% year-over-year, remaining above the upper limit of the target range of 4%. The Central Bank decided to post at this February meeting after previously slowing the pace of rate cuts, adopting a cautious approach to allow time for evaluating the effects of multiple recent shocks on inflation.

Finally, in Chile, the markets has priced in only one additional rate cut. The Chilean peso has depreciated around 6% since September and last month the exchange rate reached its highest level since 2022.

Next slide, please. BCP raised their full year ROE of 22%. This strong performance was mainly driven by resilient margins, amid a shift in the loan portfolio to retail and solid transactional funding alongside diversified income streams. On a quarterly basis, ROE stood at 20.1%, driven by the following quarter-over-quarter dynamics.

Total loans, measured in average daily balances rose 0.9%, rebounding on the back of improving macro conditions. Growth in average daily balance was driven mainly by an uptick in short-term corporate loans, particularly to the mining and energy sectors. The SME business and mortgage segment also contributed to loan growth.

NPL volumes fell 9.6%, mainly driven by a drop in overdue loans in SMEs, debt repayments in wholesale banking and an increase in write-offs and debt repayments in consumer and credit cards. NIM decreased 20 basis points to stand at 6%. This decline was driven by growth in cash and corporate loans, coupled with a drop in market interest rates, both of which pressured the average asset yields downwards.

Other income, in contrast, grew 1.9% on the back of FX transactions, which were bolstered by corporate transaction volumes. Fee income also contributed to income growth, driven mainly by record high transactional levels at Yape while debit and credit card activity at BCP remained at solid levels.

The cost of risk fell 33 basis points to stand at 1.8%. The contraction in provisions was driven primarily by SME-Pyme and mortgage portfolios. In SME-Pyme, provisions dropped due to an improvement in payment performance, which reflected improvements in the portfolio's average risk profile.

In mortgage, the contraction was due to parameter updates to our risk models and to strengthen payment capacity in individuals. The consumer and credit cards, in contrast, reported an uptick in provisions due to our risk model calibration. It is important to note that underlying risk has improved for both products.

Payment performance improved mainly after healthier vintages increased their weight within portfolios and rescheduling efforts were ramped up. In this context, BCP's risk-adjusted NIM stood at 4.9%. BCP's asset quality metrics have improved due to risk management measures, such as adjusting credit guidelines in high-risk segments, fine-tuning credit processes and calibrating specific models to better predict losses. We will gradually increase risk appetite in certain segments with strict monitoring and a disciplined risk return approach.

From a full year perspective, I would like to highlight the following dynamics. Loans decreased 0.7% in average daily balances, driven mainly by a drop in wholesale loans, where demand for long-term financing remains weak.

NIM rose 30 basis points to stand at 6%, bolstered by an improvement in the funding cost, which was positively impacted by lower interest rates and growth in low cost deposits. An uptick in the yield on interest earning assets also contributed to growth in NIM. Other core income rose 15.2% as fee income was boosted by Yape's consolidation as a key revenue stream and BCP's strong transactional activity.

Additionally, gains on FX transactions rose via an uptick in volumes and better pricing in retail and wholesale life. The efficiency ratio stood at 39.3% for the year due to higher operating expenses and lower operating income growth. Salaries and employee benefits increased alongside an uptick in variable compensation, which rose on the back of better business performance.

Technology costs increased hand-in-hand with an uptick in transactional volume. It is worth noting that the core income to assets ratio remains high, illustrating the increasing diversification of BCP's income streams.

Next slide, please. Yape reported close to 14 million active users, around 69% of the economically active population. Today, Yape is on track to achieving its target of 16.5 million active users by 2026. Revenues grew alongside an uptick in the use of features. By quarter end, monthly revenue per active user reached S/6.5. Revenue generation outpaced growth in expenses despite seasonal charges related to marketing campaigns and IT expenses. Fourth quarter seasonality effects were anticipated in line with results in previous years. Consequently, monthly expenditures per active users stood at S/5.3.

Yape's payments business is the forerunner for revenue growth. The year-over-year growth was primarily attributable to bill and QR code payments at Yape for Business. Over the period, the total payment volume rose 1.9x. In the financial business line, revenues were mainly obtained from floating, while loan disbursements continued to grow exponentially.

Year-over-year, loan disbursements rose 7.3x, as Yape focused on loans with higher tickets and durations. By the end of the fourth quarter, loans have been granted to 1.6 million Yaperos and we are well on our way to reaching our target of 5 million Yaperos with a loan disbursed by 2026.

Finally, our e-commerce business has boosted customer engagement. This is reflected in the gross margin volume, which grew three times year-over-year, mainly through Yape Promos. In 2025, Yape will enhance its offering with new features and improve its value proposition. We will develop and implement new risk models to expand our lending business while maintaining the highest standards of security and stability.

Next slide, please. After a challenging year marked by a complex credit cycle for the microfinance industry, Mibanco Peru is recovering profitability among improved credit risk management and a reduction in the cost of funds. Fourth quarter ROE contribution rose to 17.3% as we move closer to our target levels of profitability.

I would like to highlight the quarter-over-quarter dynamics. Mibanco's loans, measured in average daily balances, fell 1.2%. Despite hitting a turning point this quarter as we probably ramped up disbursement of small ticket, higher yield loans. Gains were overshadowed by a decrease in higher ticket loans. The NPL ratio fell for the third consecutive quarter and improved at a faster pace than our peers. This evolution, which was driven by a reduction in overdue loans, reflected positive impact of tighter adjustments in origination guidelines, debt relief facilities and improvement in debt collection processes.

NIM rose 30 basis points to 14.2%, boosted by a drop in the cost of funding after the funding rate decline. Cost of risk fell 154 basis points to stand at 4.7% driven by improved payment performance and risk adjusted NIM stood at 10.7%. Improvements in Mibanco's asset quality metrics reflect disciplined credit processes, including origination restrictions and stricter monitoring of the performance of businesses.

From a full year perspective, I would like to highlight the resilience of Mibanco's NIM, which was buoyed by active loan pricing management and a decrease in the cost of funding. Improvement in risk management processes led to a decrease in cost of risk.

Finally, operating expenses remained under control with efficiency standing at 52.7%. In this context, Mibanco's full year contribution to ROE stood at 10.9% in an accumulated basis. Going forward, we expect profitability to continue to improve, as healthy loan growth resumes and newer and lower risk vintages increase their weight in the mix.

Mibanco Colombia's result improved significantly, thanks to our focus on efficiency and disciplined risk processes and controls despite a challenging business environment. This helped us become the third largest private microfinance lender in Colombia.

Next slide, please. Grupo Pacifico concluded 2024 with another year of remarkable performance, achieving an ROE of 23.7% on the back of solid commercial dynamics in both the P&C and Life business lines. On a quarterly basis, ROE stood at 20.5%, driven by the following dynamics.

Net income dropped 10%, primarily impacted by an increase in the net loss on securities impacted by one credit downgrade in the investment portfolio and by higher operating expenses due to seasonality. Insurance underwriting results rose 22% on the back of an improvement in both business lines, explained by Credit Life, Cars and P&C risk.

From a full year perspective, in 2024, Grupo Pacifico delivered strong performance. Net income slightly dropped 5%, mainly driven by lower insurance underwriting results due to normalization of underwriting margins in the Life business, which was partially mitigated by strong performance in P&C and higher operating expenses attributable to investments to strengthen Pacifico's digital capabilities.

Next slide, please. Operating dynamics have been strong throughout the year for Investment Management and Advisory, which affirms that our new strategic approach is on target and puts us in good stead for 2025. Managerial ROE for our business came in at below expectations due to our decision to prioritize client relationships and mitigate the risk related to the Sartor matter in the fourth quarter. Excluding one-offs related to the Sartor case, ROE stood at 15.3% on a full year basis.

I will go through operating trends that drove a managerial fourth quarter ROE of around 10.9%, which

excludes one-off charges. Net income dropped 31%, driven primarily by higher operating expenses and a drop in trading results in our Capital Markets business due to market dynamics.

From a full year perspective, net income rose 15% led primarily by sales activities in our capital markets business. Our Wealth and Asset Management businesses also contributed to growth in net income, where AUMs climbed 16% and 18% in US dollars, respectively. These dynamics were partially offset by a drop in treasury results.

Next slide, please. Now I would like to review Credicorp's consolidated evolution beginning with the quarter-over-quarter dynamics for the balance sheet. On the asset side, as previously mentioned, loans resumed growth, but mainly in lower yielding corporate loans.

Meanwhile, cash and equivalents maintained an upward trend in the context of ample liquidity. The shift towards lower-yielding assets resulted in a 20 basis point drop in the yield on interest earning assets. On the liability side, lower interest rates and growth in low cost deposits continued to be at a slower pace than in previous quarters, contributing to a decrease in the cost of funding.

For full year basis, interest earning assets rose 7.2%, mainly driven by cash and equivalents in a high liquidity environment. In the meantime, we have slightly increased the duration of our investment portfolio to safeguard our interest income.

Lower interest rates and growth in low cost deposits led the funding costs to drop 17 basis points. Going forward, improving macroeconomic conditions should bolster lending as excess liquidity contracts, which will help us sustain a resilient NIM despite lower interest rates.

Next slide, please. Moving on to loan portfolio quality. NPL fell 8.3% quarter-over-quarter, driven by both BCP and Mibanco. It is important to note that NPL volume this quarter continued to drop after reaching a turning point in the third quarter, particularly in the segments most impacted by the recent credit cycle, individuals and the SME portfolio BCP as well as Mibanco's portfolio.

The improvement in the payment performance, coupled with successful risk management measures at both BCP and Mibanco, net provisions to drop 14.4% quarter-over-quarter while the cost of risk decreased 34 basis points to stand at 2.1%. In this context, the NPL coverage ratio rose 566 basis points quarter-over-quarter to stand at 104.3%.

Next slide, please. Let's move on to analysis of our income and expense. Core income rose 1.7% quarter-over-quarter, driven mainly by NII and FX gains. NII expanded on the back of a reduction in interest expenses. FX gains were boosted by better results in Bolivia and by growth in FX volumes for corporate clients at BCP.

In terms of margins, NIM decreased 9 basis points to stand at 6.34% while risk adjusted NIM rose 15 basis points to stand at 5.08%. On a full year basis, core income grew 9.6%, which is evidence of our ability to sustain growth as we see opportunities in a more dynamic environment. Regarding margins, we achieved a NIM of 6.29% with a record high risk adjusted NIM of 4.77%.

If we analyze expenses and efficiency on a full year basis, operating expenses rose 9.3%, driven primarily by core business at BCP and disruptive initiatives at the Credicorp level. Expenses for disruptive initiatives at the Credicorp level rose 27.1%, mainly fueled by Yape via technology and systems-related expenses and by transactional costs. Finally, an uptick in operating income and accelerating operating expenses led the efficiency ratio to drop 33 basis points to stand at 45.8% for the year.

Next slide, please. Credicorp full year profitability was fueled by strong results at our Universal Banking and Insurance business and a gradual recovery on the micro finance side. ROE for the full year 2024 stood at 16.5%.

It is important to highlight that consolidated net income in 2024 represented a record high for our company despite an environment of low growth and high cost of risk. This result demonstrates our ability to add to challenging circumstances, supported by our diversified sources of income in line with our decoupling strategy.

Now I'll move on to our guidance. Next slide, please. As previously mentioned, we expect Peru GDP to grow around 3% in 2025. Regarding loan growth, we expect our total loan book measured in average daily balances to grow around 3.5%, driven mainly by retail banking at BCP and Mibanco. This growth is equivalent to around 6% growth measured in quarter end balances. The ongoing shift of our loan growth towards a higher yield mix and stronger loan growth should ensure a resilient NIM despite potential policy rate reductions in soles and dollars down the line.

Accordingly, we expect NIM to stand between 6.2% and 6.5%. The cost of risk guidance is between 2% and 2.4%. This range reflects the recent improvements in asset quality indicators as well as the shift of our loan portfolio mix towards retail. Given this expected dynamic for NIM and cost of risk, risk adjusted NIM should stand between 4.8% and 5%.

In 2025, we will continue to invest in digital transformation and disruptive initiatives to bolster our long-term competitive position. As mentioned in our earnings release, starting in 2025 we are adopting an accounting policy change related to our loyalty program. Considering this adjustment, we expect the 2025 efficiency ratio to situate between 45% and 47%. It is worth noting that the impact of this adjustment is a reduction of about 80 basis points in our cost to income.

Regarding noninterest income, we expect fee income growth to pick up and stand in the low double-digits in 2025 as activity accelerates and our efforts to further diversify sources of income gain traction. Additionally, Insurance underwriting results should remain solid and relatively stable against 2024. Given the aforementioned dynamics, we expect our ROE to stand at around 17.5% for the full year.

With these comments, I would like to start the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the Q&A session. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you have connected to the call using the HD webphone on your computer, please use the keypad on your computer screen. If you are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will pause just a moment to allow everyone the opportunity to ask questions. We also ask that you please ask only one question at a time. After each question has been addressed by our speakers, you will then be allowed to ask as many follow ups as needed. But again, please only ask one question at a time. Thank you.

Today's first question comes from Ernesto Gabilondo with Bank of America. Please go ahead.

Ernesto Gabilondo

Thank you. Hi. Good morning, Gianfranco, Alejandro, Francesca, Cesar, Milagros and good morning to all your team and thanks for the opportunity to ask questions. My first question will be on the political

side. I know that it's still soon on the presidential elections, but which are the political parties that could be in the next election? How should we think about the left, radical and right parties? Any color on this, I think, would be very helpful. And related to this, what tends to be the loan growth for the industry and for Credicorp one year ahead of the presidential election?

Gianfranco Ferrari

Yes. Good morning, Ernesto, I'll take the first question. Actually, as you said, it's too soon to tell. There might be anything between 30 to 40 candidates. So as of today, it's actually a raffle. So, I wouldn't venture myself in providing any color. As you can imagine, if there are 30, 40 candidates, and we're over a year away from elections, anything could happen. We're totally cautious that it's a very relevant issue obviously, for us, but also for US investors, and as we get closer and have a much more clear vision on what may happen, we will share that with you.

I'll ask Alejandro for the second part of the question.

Alejandro Perez-Reyes

Sure. [Indiscernible] the question. We are not expecting a high impact from the election process for most of the year. This starts to happen late in the year, considering elections are in April of 2026. And there's a lot of candidates. So, there's going to be more clarity towards the end of the year. So, we are expecting a good year for Peru in general terms with growth. I mentioned something earlier. The cycle is improving. So going to the specific question, what we're seeing for the industry of loan growth for the banking industry is around 5.5% growth. In our case, we're expecting to grow above the market for a year. I mentioned earlier around 6%, probably a little bit more. It's going to depend on some factors on international volatility, but we're expecting a good year for 2025.

Ernesto Gabilondo

Perfect. And then for my second question will be on your sustainable ROE. So, you are guiding around 17.5% for this year, but when do you expect to normalize OpEx growth from the disruptive initiatives? And how should we think about the ROE in the next two years like around 2027?

Gianfranco Ferrari

Yes, Ernesto, as we mentioned before, what we expect our sustainable ROE is to be around 18%. We're very confident that we will achieve that tier by 2026. Basically, because the main lever for that is that we expect that actually from 2025 and onwards that the disruptive initiatives as a whole will generate a positive impact on ROE. So, yes, the answer is by 2026 onwards we expect to be operating at an ROE of around 18%, which is a substantial ROE we expect.

Ernesto Gabilondo

Okay, perfect. Thank you very much.

Operator

Thank you. And our next question today comes from Renato Meloni with Autonomous Research. Please go ahead.

Renato Meloni

Hi, everyone. Thanks for taking the question here. So, I think the tighter credit origination policy has contributed a lot to the improvement in asset quality. So, I'm wondering here what gives you conviction that you can already restart originating and grow next year and still maintain the same asset quality level provisions level? And that is still connected to this, right? The guidance also implies a mix shift towards consumer loans, but at the same time a lower or similar provisioning cost of risk here. So just trying to reconcile these two as well. Thank you.

Gianfranco Ferrari

Yes. Maybe I'll take the broader vision and ask Cesar to go into the details. But, yes, what gives us confidence is the macro environment is in a much better position nowadays as compared to 12 months ago. The trend is still positive. Late December figures are positive. Inflation in January was close to zero. The cumulative inflation for the last 12 months was the lowest inflation since prior to the pandemic. So, the overall macro environment is positive. That's the macro answer.

And on the more specific answer, all vintages which had higher NPL ratios have been digested. And the new vintages, the new originations have a much better performance. So that's the reason why we feel quite comfortable going forward.

I don't know, Cesar, if you want to add something?

Cesar Rios

Yes. I'll probably add something to try to reconcile how is that possible. I think it's a change in the composition. We expect to have a cost of rate in the range that we have provided, but with different composition that implies that we are going to have this kind of cost of risk with much higher yields because that has been digested. For some time, we have had originated loans with lower cost of risk. And gradually, we are starting to originate higher yield, higher cost of risk, but in a much tighter controlled range.

Renato Meloni

Understood. Thank you.

Operator

Thank you. Our next question comes from Brian Flores of Citi. Please go ahead.

Brian Flores

Hi, Team. Thank you for the opportunity. Just wanted to touch upon the provisioning of Sartor. So, can you open a bit more on the details as to the level of provisioning? Also, what is the base case regarding the evolution of the case? I know you entered into a factoring operation. So just what is like the base case you're already discussing internally. And finally, just to confirm if the impact of the operation is directly in Credicorp Capital? Thank you.

Gianfranco Ferrari

Yes, Alejandro?

Alejandro Perez-Reyes

Sure. As mentioned, we've done a provision of S/259 million. It's not at the Credicorp Capital level. So, we've done provisions for losses in the fund, which are at Atlantic Security Holdings, which is a holding for the group. And we have also a small provision for a loan that was given to another unrelated Sartor fund at Atlantic Security Bank. So, it's not there. We feel comfortable with the level of provision we have done with the information we have seen so far. You have to bear in mind that this company is under intervention, it has a liquidator, so they are managing most of the things. But we think that the level of provision we have done should allow us to not have to register any additional expenses this year. It's still early in the process. So, we'll have to wait and see for the liquidator and information they might give us to have a clear sense of how is the collection going along.

Brian Flores

Perfect. Just a follow-up, just to be very clear, is this case expected to be resolved by 2025? Or do you think it's something that could go beyond that?

Alejandro Perez-Reyes

At this time, as I said, it's hard to tell. This is a factoring fund. So theoretically speaking, at least from the maturity of the investment, it should be short maturity. But again, there are a lot of things around it, and we'll have to wait and have a conversation with the liquidator. It shouldn't be as long, but it depends on how it gets resolved.

Gianfranco Ferrari

Maybe just complementing what Alejandro mentioned, as to the best of our knowledge today, the economic impact we expect, overall, has been registered last year in the provisions we made in the fourth quarter of last year.

Brian Flores

Super clear. Thank you.

Operator

Thank you. And our next question comes from Tito Labarta with Goldman Sachs. Please go ahead.

Tito Labarta

Hi. Good morning. Thanks for the call and taking my question. My first question, just on the efficiency ratio, the guidance implies stable to actually a little bit weaker. So just to understand that because Yape you're already profitable there. Some of these digital initiatives should begin to pay off. So just to understand why you expect efficiency only stable to potentially a bit weaker this year. Thank you.

Alejandro Perez-Reyes

Sure. So, yes, basically, the guidance we've given is slightly lower than the guidance we gave last year in the sense that if you adjust for the accounting change that I mentioned, it's almost the same, 46% to 48%, but adjusting for it. So, yes, it implies similar levels, as you say, maybe a little bit of potential deterioration.

I would say that we are still investing in important way, both in innovation and also in the core business in developing some capabilities. We have important projects in risk, also in our mobile banking, among others. So, we see it is important for us to keep investing to maintain our competitive advantage in the market.

Having said that, it is something that we look very closely into. For example, this year we ended up slightly below guidance, as you've seen. And just to give you a little bit more color on how much we're looking into that as management, for example, our goal comes below the guidance that we've given, that's an internal guidance. So, the logic behind this, we think we need to do these investments, but we want to do them as efficiently as possible and are aiming to getting ideally on the lower side of the range and keep the cost to income stable.

Gianfranco Ferrari

Tito, this is Gianfranco. Maybe just to complement, Alejandro, you mentioned Yape. Bear in mind that Yape, you're correct, it's profitable and profitability this year is going to be much higher than 2024, but the cost to income of Yape is way higher than the 45% or 47% we're providing. And as Yape grows, even though the ROE impact is positive, the efficiency ratio impact is negative because it's still operating at higher levels. I don't know if that was clear.

Tito Labarta

Yes. No, very clear. Thanks, Gianfranco for that. So, I guess to get to that 18% longer-term ROE, we should begin to see efficiency improving in 2026, if that makes sense. And then just a second question

on the insurance. I think Gianfranco, you also mentioned you expect insurance results to be stable. I mean, ROE this quarter was a bit lower than it was for the full year. Just what do you think is the right level of ROE for the insurance business from here? Thank you.

Gianfranco Ferrari

Yes, what we're expecting is low 20s in the future. As we mentioned in previous calls, the insurance business has had two exceptional years for specific reasons related to the pension fund insurances, but we do not expect that to be sustainable going forward. So, we expect this insurance business to operate at ROEs of around low 20s.

Tito Labarta

Okay. Very clear. Thanks, Gianfranco.

Operator

Thank you. Our next question today comes from Nicolas Riva with Bank of America. Please go ahead.

Nicolas Riva

Thanks very much, Gianfranco and Team for the chance to ask questions. I have two questions on the bonds of both BCP and Credicorp. First on BCP, you have the Tier 2s, the 2030s that you can call this year, I think, the outstanding is \$850 million. Is it reasonable to assume given that you can issue the old style Tier 2s, that those are going to be called and refinanced again with the issuance of Tier 2s? And then my second question, Credicorp, the holding company also has a bond, which I believe is, which matures in June for \$500 million, if you can discuss the refinancing plans for that bond as well if possible?

Alejandro Perez-Reyes

Sure. I'll start with the second one. We are thinking about letting it mature and not refinancing it. We took it at a time where it made sense because of the price and the volatility in the world. But as of now, there's no need to maintain that debt for Credicorp. For BCP, we are looking at our capital and the best way to manage those ones. So, we are assessing what to do in the market and we'll let you know when we have a decision in the market.

Nicolas Riva

Okay. Thanks very much.

Operator

Thank you. And our next question today comes from Yuri Fernandes with JPMorgan. Please go ahead.

Yuri Fernandes

Hello, everyone, and good morning. I have a question regarding capital distribution. If you can provide some color on how should we think about payout and dividends. This was a better year for dividends, I guess, 65%, 66% payout. So just checking if we should see a similar shareholder return and given when growth is not that sound yet? So just checking the box here on dividends. Thank you.

Alejandro Perez-Reyes

Sure. So, what we said before the policy that we're following is basically we pay out all of the money that is not needed for the growth of the business. So, we basically look at the plan for the businesses in the year and then all the excess capital is paid out as dividend. We are also aiming to have a growing dividend in March. So ideally we'll be able to do that this year. But from a policy perspective, the idea is to just not retain any capital that is not needed for the business in the particular year.

Yuri Fernandes

And what is the number like on the core equity that you are working with as the minimum for you to pay the excess?

Alejandro Perez-Reyes

I'm sorry?

Gianfranco Ferrari

Core equity.

Alejandro Perez-Reyes

Yes, it's 11% at BCP and it's 13.5% at Mibanco.

Yuri Fernandes

Great. It's pretty clear. And if I may just a second follow-up here on Yape. This 4Q, usually, we see a seasonality on expenses, right, on cost to serve. Just wanted to ask you about your 2026 guidance for the new initiatives. I think you had 10% of your risk adjusted revenues to come from new initiatives. Yape seems to be on track. So just checking where we are, if you're comfortable, if you can be above the 10% below how you are seeing basically the Yape evolution versus your prior 2026 guidance for the new initiatives? Thank you.

Alejandro Perez-Reyes

Sure. We're still aiming for above 10% at 2026. That is from all disruptive initiatives. That's the way we've defined it, not specifically for Yape, but of course, Yape is the main contributor for the following years. So, yes, we are tracking to get to the number.

Yuri Fernandes

Okay. Thank you very much.

Operator

Thank you. And our next question today comes from Sergey Dubin with HL. Please go ahead.

Sergey Dubin

Yes. Hello. Thanks for the call, Gianfranco and Alejandro. Just a clarification regarding loan growth. I think you mentioned on the call that you're expecting 5% to 6% for the banking industry. And then you're showing in your guidance that you're looking at 3.5%. So, I was just not clear whether are going to be below the industry or in line with the industry or how does the 3.5% relate to 5% and 6%?

Alejandro Perez-Reyes

Sure. Thanks for the question and for the opportunity to clarify it. We guided for average daily balances so not full year growth. So, in average daily balances is a 3.5% growth. And that is equivalent to around 6% growth in quarter end balances basically. So that's the continuation. So, yes. So, we're expecting the market to grow 5.5% and has to grow somewhat above the market this year.

Sergey Dubin

Understood. Okay. And then the second question is regarding this Sartor case that you referred to. So just to understand, the press release that you issued on December 30 says that the maximum possible exposure there is \$125 million, right, which is about S/460 million, and you provisioned to S/259 million, so roughly 55% of that. So is it your belief that your provision would fully cover the possible losses and therefore you won't expect any more provision. So, the full exposure is not provisioned because you believe that whatever your provision that's sufficient already. Is that correct?

Gianfranco Ferrari

That's correct, Sergey. As you just mentioned, the maximum closure at the time was that figure. There were other funds which we invested. And as I mentioned before, we expect that the major, with the knowledge we have today, we expect that the major impact should be what we've provisioned.

Sergey Dubin

Okay. And then just to clarify one more thing. So, you felt the need to backstop your clients who invested in this fund? Is that kind of a typical practice? Or is that because you felt like that was the oversight on your part that perhaps this kind of dealt with this entity or if you I guess what I'm trying to understand is if you're distributing funds by a third-party and another one gets in trouble, would you continue like would you always do this? Or was that just a one-off? Or how should we think about this case?

Gianfranco Ferrari

Fair question. It's not a usual practice whatsoever. However, because of what this unprecedented environment and details with the counterpart, we decided to bear the whole risk and take our clients out of the matter, right. It's not a usual practice whatsoever.

Sergey Dubin

Okay. So, it's more of a one-off, right? Hopefully.

Gianfranco Ferrari

That's correct.

Sergey Dubin

Okay. Very clear. Thanks.

Operator

Thank you. And as a reminder, if you'd like to ask a question, please press star then one.

Our next question comes from Carlos Gomez of HSBC. Please go ahead.

Carlos Gomez-Lopez

Hello, good morning, and thank you for taking my question. I would like to ask about expenses and in particular verification of expenses. As you mentioned, the fourth quarter tends to be higher. I look at some of the lines such as professional fees, they really do jump a lot in the fourth quarter. And I wonder if you are thinking of perhaps distributing expenses differently over the year so that we get a more clearer picture of how they evolve? Second, in terms of also expenses, could you give us an idea about how much you think you might have to invest in Chile for the Tenpo operation in the coming years? Thank you.

Alejandro Perez-Reyes

Thank you for the question, Carlos. For the first one, we haven't changed any process as of now. So, we are not planning on expensing things differently. And for the second one, we're going to keep spending the same amount of money for next year in Tenpo.

Gianfranco Ferrari

Maybe just to provide some more additional color, Carlos. Tenpo already got the final license of [indiscernible]. The pending last authorization is based on that Tenpo complies with all operational matters and connectivity matters which we expect to be complied by the last quarter of this year.

Carlos Gomez-Lopez

Okay. No, that's my question. So, once you are fully operational and you have the full license, do you need to make an extra investment to make it a full-fledged bank to compete in the market?

Gianfranco Ferrari

The answer is yes. Actually, it has two answers. I don't have the exact figure. One is that we need to make another capital equity investment by regulation. And then since Tenpo hasn't reached breakeven, it's going to need more funding from our side to ramp up operations. Sorry for not being specific enough. Maybe what is relevant is what I answered before. Overall, we expect this year that the new ventures should be slightly cash flow negative or almost cash flow neutral overall. That's including everything.

Carlos Gomez-Lopez

Thank you.

CONCLUSION**Operator**

Thank you. It appears there are no further questions at this time. So, I will now turn the call back over to Mr. Gianfranco Ferrari, Chief Executive Officer, for closing remarks.

Gianfranco Ferrari

Thank you. In 2024, we achieved record breaking results, reflecting our strategic strength and resilience amid the changing macroeconomic landscape. Our success highlights our diversified portfolio, digital innovation and strategic risk management. Building on this momentum, we will continue to benefit from Peru's recovery, which is fueling growth across our key business lines. These achievements highlight the effectiveness of our strategic initiatives in bolstering stability, improving efficiency and reinforcing our competitive advantages. As a result, we are well positioned to navigate volatility and capitalize on opportunities to drive sustainable growth.

We reaffirm our sustainable ROE target of 18% by 2026. This expectation is supported by a resilient NIM and an increasing risk adjusted NIM as we continue to shift our loan portfolio towards retail and accelerate digital transformation, targeting 10% of risk-adjusted revenues from new business models by 2026. This will also lead to an improvement in efficiency as our disruptive initiatives mature.

Looking ahead, we remain focused on three strategic pillars: attracting and retaining top talent, accelerating digital transformation, and integrating sustainability into our core strategy. By addressing these priorities, we will sharpen our competitive edge and drive long-term value in an evolving global landscape.

Our robust risk management framework is also central to our strategy. Our '25' and '27 risk transformation program will enhance capabilities across all subsidiaries through automation, advanced monitoring and structure implementation approach. Key initiatives include strengthening the risk function, scaling distinctive capabilities and embedding a stronger risk culture. These efforts are expected to lead to higher growth of the lending portfolio, while optimizing it, improve risk adjusted profitability and expand financial access for underserved Peruvians. With a clear strategy, disciplined execution and a commitment to innovation, we are confident in our ability to drive sustainable growth and create long-term value for all stakeholders. Thank you all.

Operator

Thank you, ladies and gentlemen. This concludes today's presentation. You may now disconnect your lines. And have a wonderful day.