# Credicorp

## First Quarter 2024

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**CORPORATE PARTICIPANTS**

**Milagros Ciguenas -** *IRO*

**Gianfranco Ferrari –** *Chief Executive Officer*

**Cesar Rios –** *Chief Financial Officer*

**Reynaldo Llosa -** *Chief Risk Officer*

**Francesca Raffo -** *Chief Innovation Officer*

**PRESENTATION**

**Operator**
Good morning, everyone. I would like to welcome all of you to the Credicorp Limited First Quarter 2024 Conference Call. A slide presentation will accompany today's webcast, which is available in the Investor 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 have connected to the call using the HD Web Phone on your computer, please use the keypad on your computer screen. If you're 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 Cesar Rios, our Chief Financial Officer. Participating in the Q&A session will also be Alejandro Perez-Reyes, Chief Operating Officer; Francesca Raffo, Chief Innovation Officer; Reynaldo Llosa, Chief Risk Officer; Cesar Rivera, Head of Insurance and Pension; Carlos Otello, Mibanco Chief Financial Officer; and Diego Cavero, Head of Universal Banking.

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 statement section of 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 opening remarks about our improved micro environment and brief comments on our strategic initiatives, followed by Cesar Rios, who will present in more detail the evolution of key micro figures, our financial performance and revised outlook for 2024. Gianfranco, please go ahead.

**Gianfranco Ferrari**
Thank you, Milagros. Good morning, everyone. Thank you for joining us. Despite our strong structural microeconomic figures, the persistent fragility of the government and its limited capacity to implement timely policies aimed at stimulating investment and economic growth has prompted S&P to downgrade our sovereign grade rating to BBB-. This downgrade is expected to affect the investor appetite for our countries. In our view, however, we do not expect the economic growth agenda that has been put in place this year by the executive branch to change prior to the 2026 general elections.

The overall economic outlook remains positive, with expected GDP growth revised upward to 3% in March from the previous projection of 2.5% commented in our last call. Beyond better weather conditions benefiting the fishing, agriculture and textile sectors, as El Nino has ended, several factors support a gradual recovery of economic activity during the upcoming quarters: copper and gold prices have increased significantly and are expected to remain high; a lower inflation rate, which will benefit consumers; and lastly, the stimulative effect of countercyclical economic policies, such as a lower Central Bank policy rate and higher [indiscernible] of public investment, which will start to feed into the economy.

Despite its challenges, the Peruvian government has placed explicit focus on promoting investments to contribute to business confidence recovery. In the first quarter alone, awarded infrastructure investments reached $3 billion. Additionally, the government's plan to establish a unified office for infrastructure investments marks a significant step forward. Economic expectations indicators have trended upward since the end of last year. Anticipated loan growth is on the horizon, as private sector confidence strengthens. Additionally, inflation stands low compared to other Latin American countries and formal sector wages have experienced recent growth. The Congress' recent approval of the seventh withdrawal of pension funds underscores again the need to reform the current private pension model in Peru.

Turning to our first quarter results. We delivered a strong ROE of 18.2%, including the impact from the reversal of provisions at BCP and Mibanco. This was achieved in the context of weak loan growth and an economy that is slowly starting to recover. Risk adjusted NIM remained resilient, reflecting our disciplined interest rate management strategy, further supported by lower provisions and our leading low cost funding position.

Additionally, our strong solvency has allowed us to increase our dividend to 35 soles per share, while also contemplating our plans for continued sustainable growth. Our resolute focus on advancing innovation and strengthening our digital capabilities has fortified our competitive moat. This has not only elevated our relationships with current clients but has also contributed to expanding financial inclusion. With respect to the macro backdrop, as I just mentioned, we anticipate a sustained economic improvement during the year, and Cesar will discuss this in more detail shortly.

Now moving on to strategic developments. We remain focused on strengthening our core businesses, while also complementing them with disruptive initiatives. As one of the few banks to embrace self-disruption to remain ahead of the competition, anchored in allowing clients to decide where and how they bank has been evident since Credicorp's inception. These strategic initiatives position Credicorp for continued digital advancement and customer centric growth.

At Mibanco, which mainly provides financing to micro businesses, we are reaffirming our hybrid model strategy. This strategy leverages high touch, in-person visits from relationship managers and digital tools, including centralized risk assessment. After making significant adjustments in terms of pricing and origination guidelines over the past six months, we're observing improved payment performance in new vintages. Additionally, we're now selectively growing within the lower ticket, higher yielding segments that have relatively better risk profiles. Our planned advancements are on track, and we expect a rebound in profitability at Mibanco this year.

I want to take a moment to address a question we have been hearing from you on the road. Related to the [indiscernible] overlap of Mibanco and Yape clients. Yape prioritizes consumers at its lending business and Mibanco provides financing mainly to micro businesses. While we acknowledge that there is little distinction between the pocket of the individuals and the micro entrepreneurs, the lending business at Yape is at a very early stage and we're a long way away from seeing an overlap.

Now let me turn the call over to Cesar, who will discuss in more detail the microenvironment and the operational and financial performance of our business units.

**Cesar Rios**
Thank you, Gianfranco. And good morning, everyone. As Gianfranco mentioned, we delivered strong overall operating and financial results. As I discuss the highlights of the quarter, I will focus on the year-over-year results, which are not impacted by seasonality. Our loan mix shift towards retail, coupled with the repricing of our dollar book, allowed us to deliver higher NIM despite a reduction in interest rates in soles. Total loans dropped 3.1%, measuring average daily balances, driven primarily by lower volumes in wholesale banking and amortization of government program loans. The share of low cost deposits in

our funding base stood at 53.7%. NII grew 9.4%, boosted by the aforementioned dynamics.

Other core income, which is the sum of fee income and gains in FX operations, also evolved favorably, boosted by BCP and to a lesser extent by Credicorp Capital. Core income at BCP benefited from monetization initiatives at Yape and solid transactional activity through credit and debit cards. Lastly, insurance underwriting results dropped 5.8%, which reflected a reduction in income from disability and survivorship products in the life business.

The cost of risk increased to 2.3%, which incorporates a 250 million re-leasing provisions associated with El Nino. Throughout this presentation, our analysis of provision expenses at cost of risk will isolate the impact of El Nino provision registered in the fourth quarter of ‘23 and reversed in the first quarter of ‘24. We will refer to these adjustments as isolating the impact of El Nino provisions. After adjustments, cost of risk increased to 3%. The devaluation was driven by a deterioration in payment capacity and SME payment and credit cards and by a downturn in payment performance in consumer loans.

The NPL ratio rose 77 basis points to 6.2%, as delinquency increased across various segments and in older vintages in particular. As a result, NPL coverage stood at 93.5%. All in all, we delivered strong results on the back of solid growth in our margin, an uptick in transactional activity and disciplined cost control. In [indiscernible], we recently announced a 35 soles dividend per share payout as we pushed capital levels closer to target across our subsidiaries.

Next slide, please. The Peruvian economy is gradually recovering from a very challenging 2023. Economic activity grew 2.8% year-over-year in February, its best print in almost two years. Furthermore, all the expectation indicator from the micro Central Bank survey stood in the optimistic range for the first time in five years and remained in that range in April. Even though we expect a slowdown in economic activity in March, a rebound should follow in April.

The global economic outlook has also improved. Recently, the IMF upgraded its 2024 World GDP forecast as positive indicators continue to point towards a soft landing. Importantly, commodity prices, particularly for copper and gold, which combined represents around 50% of our exports, have raised significantly and are expected to remain high. Peru has accelerated public investments, which increased 40% year-over-year in real terms in the first quarter, representing the highest such increase reported in 14 years excluding the pandemic.

ProInversión announced that as of April 2024, the government has already advanced 48% of its 2024 goal to award $8 billion in public/private investment projects. This goal is more than triple the amount awarded in 2023. This positive backdrop has been clouded somewhat by a Standard & Poor's downgrade of Peru's sovereign credit rating to the lowest rank to qualify as an investment grade country. The agency indicated that this change was motivated by political uncertainty, the actions of a fragmented congress and a weak executive branch, which negatively impacted investment sentiment in the private sector and constitute an opportunity cost to growth in this context. Peru's capacity to rebuild fiscal space is challenged. Given the aforementioned and despite political noise, we forecast Peru GDP will grow around 3% after highly negative shocks last year due to poor weather conditions and heightened social turmoil.

Next slide, please. In United States, a strong economy continues to surprise. In fact, due to better than expected economic data and hot inflation readings, market participants have pushed back the Fed rate cut expectations once again. Hence, higher for longer dollar rates will continue to pose a dilemma for emerging markets. In Peru, inflation has continued to slow and it stands within the Central Bank target range. Since September 2023, the country's Central Bank has put its policy rate 175 points. In Colombia, inflation remains among the highest of the region and stood at 7.2% as of April. Accordingly, the country's Central Bank has adopted a cautious stance and has lowered its policy rate by 150 points since

December. Finally, in Chile, inflation is gradually converging towards target. In response, the Central Bank has cut its rate by 475 basis points since its peak.

Next slide, please. BCP delivered a strong result, which in part reflected a reversal of provision set aside last quarter for anticipated El Nino losses. Analyzing key quarter-over-quarter dynamics, total loans measured in average daily balances fell 1.4%, driven by a contraction in wholesale loans and repayments of government program loans in SME payment segments. NII rose 1.5%. This evolution was led by a drop in the funding cost after term deposits were renewed at lower rates. Interest income increased quarter-over-quarter, as we profitably managed our liquidity balances in the context of lower loan growth.

The provision expenses, after isolating the impact of El Nino provisions, increased mainly mortgages due to a base effect and SME payment due to weaker payment capacity of clients in a context of gradual economic recovery. Other income grew 3.1%, fueled mainly by a strong volume of credit card transactions to higher fee channels and secondarily by fee income at Yape.

On a year-over-year basis, NII grew 9.3%, driven by loan mix shift towards retail and pricing improvements. Loan loss provisions, excluding the reversal of El Nino provisions, increased 65.7%, driven by deterioration in payment capacities in SME payment and credit cards and by a downturn in payment performance for consumer loans. Other income was up 10.5% underpinned by solid growth in the fee income through Yape as well as credit and debit card transactions. Operating expenses increased 8.1%, driven by an uptick in expenses for specialized IT personnel and disruptive initiatives. In this context, BCP's contribution to ROE stood at 24.7%.

Next slide, please. Yape continues to grow and in March registered more than 11.5 million monthly active users, who conducted an average of 36 transactions per month. Seventy-five percent of these active users already generate fee income. Improvements in the lines of business and their functionalities is pure growth in engagement, fee income and NPLs. At the end of March, Yaperos used an average of 2.2 functionalities a month. Fee income generated to Yape increased 24.1% quarter-over-quarter and the NPS reached 78. As a result, Yape obtained an income per active user of 3.7 soles while expenses per active users dropped to 3.9 soles due to seasonal factors. Yape is close to reaching breakeven in coming months.

Next slide, please. To reach breakeven, Yape is accelerating income growth by diversifying its sources of revenue. To achieve this, it has been adding functionality to its three lines of businesses. Yape Payments business is the top revenue producer and has gone from offering P2P payments to processing a portfolio of fee generating functionalities, where mobile top-up is the most mature, and bill payments, payment with POS and checkout functionalities are gaining traction.

Within the financial business line, in addition to the margin received for floating base on deposit balances, we have two products that generate income: lending and insurance. Within lending, disbursements of single installments and multi installments loans grew 2.24 year-over-year. In insurance, we currently provide a statutory accident insurance for vehicles and plan to extend our offerings in the short term. The financial business line is still in the early stage. We are developing differentiated risk management capabilities based on the unique relationship and level of engagement that Yape has built with its users.

Finally, within the marketplace business, we have new features such as Yape Promos and Yape Tienda. Yape Promos offers Yapero discounts for consumption and affiliated restaurants, cinema and other establishments. The gross merchant volume for Yape Promos grew threefold year-over-year. Yape Tienda was launched in September and offers appliances and electronics via e-commerce.

Next slide, please. Moving on to Mibanco. On a quarter-over-quarter basis, total loans measured in average daily balances fell 3.1%, driven by stricter origination policies as we continue to fine-tune our risk models and processes. Additionally, we are selectively starting to grow our small ticket higher yield loans. NII increased 1.4%, mainly due to a drop in the cost of funding, which was triggered repricing of the funding base. In this context, NIM increased 7 basis points and stood at 13.4%.

Provisions. Isolating the impact of El Nino provisions increased 29.2% due to higher delinquency related to all vintages. For year-over-year perspective, NII was up 5.3% due to an uptick in interest income as active loan pricing management mitigated the impact of our loan contraction. The upswing in NII was offset by a rise in the funding cost provisions. Excluding reversals for El Nino, provisions fell 10.8%, mainly due to a base effect given that the first quarter of ‘23 more provisions were required due to social and climate events.

Operating expenses rose 2% over the same period and remain under control as we continue to invest in digital capabilities. In this context, efficiency has stood at 53.3% year-over-year, with ROE reaching 13.2%.

Mibanco Colombia has been challenged by a deterioration in economic conditions and ongoing high inflation, very high funding rates and a reduction in the interest rate ceiling. We have a profitable growth strategy where we have to slow down the growth rate of the portfolio by emphasizing risk control and efficiency. We remain committed to long term potential of this business.

Next slide, please. Profitability, of Grupo Pacifico expanded this quarter, with ROE standing at 28.9%. In quarter-over-quarter trends, insurance underwriting results remained relatively flat, as favorable dynamics in the property and casualty business were offset by lower results in the life business. It is important to note that the disability and survivorship product continue to demonstrate sequential expansion, as the anticipated decrease in revenue was offset by a reduction in claims. Despite flat underwriting results, net income grew 60%, bolstered by a base effect as non-recurring expenses were reported last quarter and an increase in non-financial income.

From a year-over-year perspective, Grupo Pacifico net income dropped 2%. This decline was primarily attributable to a drop in life insurance and the write-off results, which was driven by individual life and group life products, improved performance in the property and casualty business, notably within property and casualty risk, coupled with increased net financial income partially offset these dynamics.

Next slide, please. Profitability in the investment management and advisory line of business increased this quartered, with ROE remaining virtually flat at 14.1%. On a quarter-over-quarter basis, net income rose 9%. This evolution was driven primarily by a seasonal drop in operating expenses and growth in income from our wealth management business, where assets under management in US dollars were up 9%. The impact of these variations were partially offset by the elimination of corporate finance business unit and less favorable Treasury] results.

It is important to note that despite the uptick in net income, ROE remain unchanged. This was attributable to the average net equity balance, which was boosted by the revaluation of available for sale securities as ASP. On a year-over-year basis, net income increased 8%, bolstered by higher income from our capital market business which [indiscernible] uptick in transactional activity among corporate and retail clients. Our wealth management business also contributed positively, as assets under management rose 19% in US dollars.

Next slide, please. Now, we will look at Credicorp consolidating dynamics. On a quarter-over-quarter basis, interest earning assets posted a slight uptick, as cash and due from banks offset the decline in loan balances, particularly for wholesale loans. The yield in interest earning assets increased 4 basis points, mainly due to a rerating of the loan portfolio. On the liability side, we maintain our funding advantage in low cost deposits. Our time deposit volume, which has rising but has been repriced downwards, drove a 5 basis points decrease in our cost of funds. Additionally, BCP issued a senior bond as part of a strategy to manage long term debt.

On a year-over-year basis, our interest earning assets mix shifted, reflecting upticks in retail loans and investment balances as wholesale loans contracted somewhat in line with market dynamics. On the funding side, low cost deposits continued to be the main source of funding. A favorable funding structure and to a certain extent a steepening yield curve led the yield in our interest earning assets to rise 73 basis points and outpace the increase of 37 basis points registered for our funding costs.

Next slide, please. Recent balance sheet and interest rate dynamics led NIM and NII to increase boosting core income growth. On a quarter-over-quarter basis, NIM increased 10 basis points and stood at 6.3%. Risk adjusted NIM grew 75 basis points to 4.85%. If we isolate the effect of provisions for expected losses for El Nino, risk adjusted NIM fell 16 basis points.

Core income was boosted mainly by NII, which increased 2.3% quarter-over-quarter. When analyzing the result for fee income and FX transactions, it is important to note that both lines have been affected by our operations in Bolivia BCP, which has adopted its fee structure for foreign transfers to offset the losses reported for FX sale purchase transactions. Excluding BCP Bolivia's operations, other income grew 1.3% quarter-over-quarter, driven by an uptick of 3.1% in fee income at BCP, driven mainly via fees from credit card transactions with registered growth through the e-commerce channels and by an increase in transactions to Yape and Prima due to growth in the volume of payroll contributions. On a year-over-year basis, NIM rose 46 basis points and risk adjusted NIM increased 31 basis points. If we exclude BCP Bolivia operations, core income increased 8.5% on the back of NII, which grew 9.2%, driven mainly by BCP via an uptick in transactions through Yape credit cards and debit cards.

Next slide, please. Let's look at the dynamics for non-performing loans. On a quarter-over-quarter basis, growing non-performing loans was led by BCP, followed by Mibanco. Within BCP, NPL growth was driven by consumer, mortgages and wholesale and partially offset by SME-Pyme. In consumer, NPL growth was related to refinancing of vulnerable clients, while growth in mortgage NPL was fueled by clients that also registered delinquency in other products. The NPL volume in wholesale was impacted by refinancing for a specific corporate client. This evolution was partially offset by a contraction in NPLs in SME-Pyme, which reflected the impact of loan collateral honoring process for government loans. At Mibanco, delinquency was concentrated in all vintages where clients were affected by macroeconomic, social, environmental impacts in 2023.

On a year-over-year basis, NPLs increased mainly to BCP and Mibanco. Within BCP, NPLs grew mainly to consumer, which experienced an uptick in refinance loans and delinquency among all vintages, and through mortgages after the payment performance of our indebted clients deteriorated and refinancing growth. In Mibanco, the drivers of NPL growth year-over-year were the same as those seen in the quarterly analysis. In this context, the NPL coverage ratio stood at 93.5%, while NPL coverage ratio isolating government programs stood at 97.2%.

Next slide, please. Moving on to provisions. The cost of risk stood at 2.3%. Isolating the effect of El Nino provisions, the underlying cost of risk increased 45 basis points quarter-over-quarter to stand at 3%. Let's go through the dynamics for provision expenses, which isolate the aforementioned impact.

Provisions grew 16% quarter-over-quarter, driven by a base effect in mortgage, which reflect a reversal for the specific proposals last quarter and in SME-Pyme, which reported higher write-offs and a deterioration in payment capacity in the context of gradual economic recovery. At Mibanco, growth in provisions was due to higher delinquency related to all vintages. On a year-over-year basis, provisions rose 46.9%. Growth was fueled by a deterioration in payment capacity in SME-Pyme and credit cards and a downturn in payment performance in consumer loans. The aforementioned was partially offset by a drop in provisions of Wholesale Banking and Mibanco.

Next slide, please. We will review the evolution of efficiency on a year-over-year basis to isolate the impact of seasonal effects. Operating expenses grew 6.9% year-over-year, driven primarily by disruptive initiatives at the Credicorp level and within core businesses at BCP. Expenses for disruptive initiatives at Credicorp level increased 31.8%. The most significant expenditures were in Yape and Tenpo, which together accounted for 60% of this quarter’s disruptive expenses.

At BCP, core businesses will fuel growth in expenses through an uptick in IT expenses related to moves to attract more specialized digital talent and increased use of the cloud as clients become more digital and transactions level increase. Operating leverage remained strong at BCP core businesses due to control expenses and Mibanco operating expenses remain under control and operating income is starting to turn around. In this context, our efficiency ratios stood at 43.6% in the first quarter of 2024, down 70 basis points year-over-year, driven mainly by positive operating leverage at BCP.

Next slide, please. First quarter profitability was sustained by solid results in our universal banking and insurance businesses and by a recovery in our microfinance business. In addition, we benefited from a considerable uptick in the performance of our investment portfolio at the holding level. In this context, ROE for the first quarter stood at 18.2%.

Now, I will move on to our updated guidance. As previously explained, our GDP growth guidance improved to around 3%. Regarding our profitability drivers, first, given the low demand in wholesale banking and still cautious origination volumes in retail banking at BCP and Mibanco, we expect loan growth measured in average daily balances to be at the lower end of the guidance range. Second, we expect NIM, cost of risk and efficiency to stand within our guidance range. Finally, we are observing better than expected dynamics for fee income and insurance underwriting results. Given all of the aforementioned, we maintain our ROE guidance for 2024 of around 17%.

With this, we can turn to the Q&A.

**QUESTIONS AND ANSWERS**

**Operator**
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 Web Phone on your computer, please use the keypad on your computer screen. If you’re using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. We will pause for just a moment to allow everyone the opportunity for questions.

We also ask that you please only ask 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.

Our first question today is from Ernesto Gabilondo with Bank of America.

**Ernesto Gabilondo**
Thank you. Hi. Good morning, Gianfranco and Cesar, and good morning to all your team. Thank you very much for your presentation, and congrats on better than expected net income and the ROE for the quarter

at 18%.

My first question will be on fees. So we saw a strong expansion in fees of 20% on a yearly basis. You mentioned that we are starting to see the benefits from Yape in your revenues. So just wondering if there is a target on how much could Yape be contributing to your fee income revenues and what can we expect for the growth of fees in 2024?

**Gianfranco Ferrari**
Good morning, Ernesto. I'll take a more conceptual answer, and then I'll ask Cesar to go into the details. Regarding the impact on Yape in terms of fees, it's a quite complex question because what is happening with Yape is that there's sort of a J-curve in terms of businesses and therefore income generation. So, each target we set, we surpass that target every month, quarter or whatever. So, we're very positive on Yape impact in the medium and long run.

On the other hand, on fees, in general, I would argue that what is paying off is that the strategy we launched a few years ago, which we called War on Cash, we've been heavily investing, mostly at BCP in how to become the payment hub in Peru and obviously this is paying off.

I'll ask Cesar to complement me into the details.

**Cesar Rios**
Thank you, Gianfranco. As Gianfranco mentioned, the main structural drivers are long term capabilities that we have been building. I would like to highlight that this 20.5% is a slightly distortion by the situation of Bolivia. I will say that a more structural fee will be in the low teens. The situation in Bolivia is that we charge a higher fee and will register a loss in the FX transaction. But if you take out this, we can be in the low teens. And it's driven by higher transactional activity, the expansion of different products that we are introducing and scaling very rapidly in Yape. And I will also highlight that other subsidiaries or the group are starting to increase fee income growth also that is very positive, that implies that we are starting to have the capacity to, let's say, navigate with more than two engines at this point.

**Ernesto Gabilondo**
Perfect. Thank you very much. And then for my second question is in terms of regulation. We have recently seen some proposals at Congress. So, can you elaborate on what could be the potential impact to your business? I think there was something related to banking transfers and credit card payments. And also, I don't know if there's a last update on pension [indiscernible] or pension reforms?

**Gianfranco Ferrari**
Yes, that's a more complex question than the first one actually. Congress in Peru is Congress in Peru. Having said that, I'll start with the last question. Unfortunately, all the efforts that have been done, both by regulators, regulators have been technical regulators and actually by us as Credicorp and so on, in reform proposals regarding the pension funds haven't been approved or taken into account by Congress. And unfortunately, they've decided to approve a seventh withdrawal. As I've mentioned before, in our opinion the pension system in Peru in general has been attacked or perforated for the last three, four years. Therefore, unless we do have a structural reform, we are putting in danger the pension system or the retirement plan for Peruvians in the next, I don't know, 10 to 15 years. That's in pensions. And I would say that's the most structural reform that is needed in Peru.

Regarding specific regulation in terms of fees, yes, it's on and off. If you go, I don't know, back five, 10 years in time, a lot of fees have been taken out by Congress. It is what it is. What we're doing is trying to go through the technical regulators, trying to work on what's the reasonability for charging those fees.

**Ernesto Gabilondo**
But is there any potential impact, any timeline for this to be approved or not?

**Gianfranco Ferrari**
We will know. As you mentioned, specifically on the interbank fees, it was approved at the first voting scheme. There should be a second one. And nothing has happened. That might be approved or not, we really don't know. It's really a question mark. That's why I said this question is more complex than the first one because of the [overlapping voices]. I would say the level of populism at Congress has risen a lot over the last couple of years.

**Ernesto Gabilondo**
Perfect. Understood. Thank you very much.

**Cesar Rios**
Thank you, Ernesto.

**Operator**
The next question is from Renato Meloni with Autonomo.

**Renato Meloni**
Hi, everyone. Thanks for the space to ask questions. Mine is on the guidance, I wanted your perspective on how you reconcile achieving the growth guidance that's been lagging. But at the same time that you want to achieve the cost of risk guidance, particularly in light here of the tight coverage ratio that you currently have. Thank you.

**Gianfranco Ferrari**
I'll ask Cesar and Reynaldo to answer that one.

**Cesar Rios**
And I think probably you are referring to higher GDP expectations, similar loan growth and cost of risk all put together. I think it's a matter of timing and mix. The GDP growth, actually the perspective is improving, but our clients are already impacted. So, we have corporate clients that are very worldwide, they are very creditworthiness but they are still very conservative in their demand. And we are more internally being more conservative in the origination of the retail loan portfolio. This implies that even in a higher expectation of GDP growth, the combined loan portfolio is going to be in the similar range that we were expecting with a lower GDP growth.

And in terms of cost of risk, and Reynaldo can complement and correct me, we are also seeing significant improvement in the cost of risk of the new vintages, but the deterioration of the already originated portfolios is still there and we need to go through a process in which they go through the process of really deteriorating to the point of charge off and a certain percentage. And after that, these old vintages are going to be extinguished and came down in relative volumes at the end of the year.

**Reynaldo Llosa**
This is basically what Cesar has mentioned, and we expect to see the results of the impact of the new vintages and better looking economic outlook, especially on the second semester of the year. So that's why we decided to maintain our guidance in terms of cost of risk for the year.

**Renato Meloni**
Understood. Thanks. And then in terms of loan growth, do you expect the inflection point also to happen in the second Q when you start accelerating growth?

**Cesar Rios**
Yes, because we have two factors. One factor is the gradual effect of economic growth, the reduction in interest rates but in also a comparison base, because last year we have a decrease in volumes through the year. So, we need to go through this process, like I will say, like a sunrise in which we gradually are starting to have less tougher comparisons through the year. I don't know if it is clear. Last year, you have higher volumes at the beginning, lower volumes at the end. And we expect to have reverse this year. So, through the quarters, we are going to have less tougher comparisons as the year progresses.

**Renato Meloni**
That’s clear. Thank you.

**Operator**
The next question is from Thiago Batista with UBS.

**Thiago Batista**
Hi, guys. Thanks for the opportunity. Congratulations for the results. I have a follow-up question on Ernesto’s one about Yape. And by the way, Yape is presenting impressive numbers, but you have already achieved 11.5 million clients, active clients. And this is probably half of the adult population in Peru. So how much more clients can Yape add? And when you look, let's say, four or five years from now, how do you believe we will beat Yape's revenues? Do you see any big change in the type of revenues that Yape will generate or no?

**Gianfranco Ferrari**
Great question, Thiago. Let me go back to how the strategy regarding Yape has evolved. When we launched Yape, the main focus was to gain users, or what we call Yaperos. When we got pressure in that sense, we then switched to usage. And as you can see, the level of usage has risen dramatically over the last few years. Nowadays the focus is how to, on one hand monetize that usage and on the other hand, keep releasing new features and new functionality so as to solve the daily life of Peruvians.

Regarding your first question, the main target today is not to keep adding new users. However, having said that, the number of users is increasing by roughly 300,000 users per month. But the main focus or the main strategy today is usage and monetization.

Regarding your second question, again, I go back to the first question regarding fees, the one made originally by Ernesto Gabilondo is, again, there's a J-curve in terms of usage of Yape. So going forward, we expect Yape to have different sources of income. We really don't know exactly today what those sources of income are. Obviously, the ones that are more mature are going to be more relevant now in the near future. Having said that, going forward, there might be new sources of income. And we're constantly looking for alternatives and also looking for benchmarks and wallets that are more developed in other countries than where Yape is in Peru.

**Cesar Rios**
If you allow me to complement. We have a page in the presentation that helps to understand this, because in payment, that is the more mature business, we have starting to add new functionalities. And among this, the composition has changed, incorporating relative volumes of the new ones. In the second is lending that is starting to gain traction and relative volumes. And in the third place is marketplace. So, we expect to change the composition. We don't know exactly what is going to happen. But as you see, as a combination of compounding business, the second ones are starting to grow relative weight down the road.

**Thiago Batista**
Thanks for the answers.

**Operator**
The next question is from Tito Labarta with Goldman Sachs.

**Tito Labarta**
Hi. Good morning. Thank you for the call and taking my question also. My question is on your margin, good performance there, continues to expand, it's within the guidance range. But just thinking from the evolution from here, do you see any room for the NIM to continue to increase? I know you expect loan growth maybe to pick up second half of the year, but it's still been negative. And even if it increases, it's increasing to the mid-single digit. So, given that relatively muted loan growth that's expected, can the margin increase further? And can you also remind us on the sensitivity of margin as rates continue to come down? Thank you.

**Cesar Rios**
We think that we can maintain this level of net income. And I would like to remind you that these levels are more than 100 basis points higher than previous to the pandemic. These are significantly high levels of net income. And at the end of the day, what we actually manage and monitor is the risk adjusted NIM, that is a combination of these and the cost of risk. Inside the dynamics, we have had the capacity to extend the duration of the portfolio, the soles portfolio. And due to the international rates, we expect to still have dollar rates in a high range for some time that are going to allow us to converge this further decrease with the change on the portfolio towards a more retail base.

So, I think it's reasonable to expect relative stable NIM and trying to improve the combination of NIM and cost of risk shifting the profile of the portfolio down the road. I think this is a reasonable assumption. And when this process converge, probably next year, we expect to have a higher, more positive loan growth that improves the total results for the following years.

**Tito Labarta**
Okay, that's clear. Thank you.

**Operator**
The next question is from Yuri Fernandes with JP Morgan.

**Yuri Fernandes**
Good morning. And thank you for the opportunity of asking questions. I have one on your operating expenses and overall efficiency ratio. You are tracking below the guidance and still you are not changing. I understand first Q is seasonal, so maybe this is part of the explanation. But when we look to your breakdown of disruption expenses, we see that line, although, still growing a lot, even also decelerating, right? It used to be growing 50%, 60% year-over-year and now it's growing, I don't know, like 30% year-over-year.

So, my question to you is, how should we think about this, can't you be a little bit more efficient? Thinking on the long term, I understand for this year it's 46%, 48% guidance for efficiency. But what is your goal like in the long run? Can we see Credicorp running below 40%, like anything you can comment? So, my question is, is there a chance that this year you surprise us on the low end of the guidance? And two, where should efficiency sit, because now most of the new projects, they are getting more mature? We have Yape, you have Tenpo, getting bigger scale, s just trying to understand if we could see a positive trend on your efficiency and operating expenses. Thank you.

**Gianfranco Ferrari**
Good morning, Yuri. If we were not investing in any new technology or innovation, I totally agree with you that the cost to income could go down. If you recall, maybe a couple of years ago, we said that by 2025 the disruptive initiatives in terms of cash flow should be cash flow neutral. We reaffirm that position. We don't expect—actually it might be slightly better than what we stated a few years ago.

Having said that, as we all know, there are a lot of new technologies coming up. Specifically, one that pops-up in my mind is artificial intelligence. And in the short run that might have a negative impact in terms of cost to income. Obviously, in the long run it should improve cost to income. So, I would divide the question in two. If we were not investing in any new technologies, the cost to income should go down. Having said that, as a matter of fact we've recently launched an internal AI, an overall corporate AI program and we are going to invest in that program, at the beginning mostly focused on cost reduction. However, that's not going to have a positive impact in the short run.

**Cesar Rios**
I would like to complement something. If you see our figures, year-over-year our expenses grew almost 7%, 6.9%. But I would like to highlight that this was achieved including a 31%, almost 32% increase in disruption. But this disruption is building businesses that are gradually more profitable and gaining scale. For example, these expenses were 9% of the total cost base one year ago, now it's more than 11%.

So, what we are going to see is an overall figure that probably doesn't change too much, but a significant change in the composition following the strategy that Gianfranco mentioned, in which the more traditional business gain in efficiency and the disruptive ones still maintains relative high cost to income and gains relative weight by building new business and capabilities down the road. This is very visible now in our figures already, with BCP growing 4.7% year-over-year, including almost 18% increase in IT related costs.

**Yuri Fernandes**
I just have a hard time, like your loan growth will accelerate. Your margins, they should be mostly stable from here, right? And the new initiative, they're getting more mature, right? Like when you look to cost to serve and they are back of your asset, they are almost crossing each other, right? So, the breakeven is real and it's getting closer. So I struggle to see like the efficiency moving from 44 to 46, 48 that is in your guidance and I wish we could see some upside here. That was my point, but is very clear.

**Gianfranco Ferrari**
Yuri, you're right. Your view is right. Maybe the only caveat is that if there were new investments to do or to make in either innovation or new technologies, we're going to do that and that might have a negative impact. But your view is right.

**Yuri Fernandes**
Perfect.  Thank you very much, Gianfranco and Cesar. And congrats for the quarter.

**Gianfranco Ferrari**
Thank you.

**Operator**
The next question is from Carlos Gomez Lopez with HSBC.

**Carlos Gomez Lopez**
Good morning. And thank you for the update. You've talked extensively about Yape. Could you also perhaps refer to the other initiatives, like Tenpo in Chile and iO in Peru? How are those advancing so

far? Thank you.

**Gianfranco Ferrari**
I'll go with Tenpo and I'll ask Diego or Francesca to talk about iO. Tenpo is right on track. Remember though that Tenpo is way below breakeven yet. Having said that, the operating leading indicators are on track and some of them are outperforming our initial expectations. We filed an application for a full banking license for Tenpo in Chile and that should be approved anything between 18 to 24 months. But in a nutshell, Tenpo is performing well. We do not expect to breakeven in the short run. And maybe in the next call or in a couple of calls, we can be more specific on the Tenpo figures.

I don't know if Francesca or Diego want to go into specific on iO.

**Francesca Raffo**
Let me complement a little bit on Tenpo and continue on iO. In addition to what Gianfranco said, I think two facts to Tenpo, which are very promising. One is the transactional base on the prepaid and debit card is still growing. And now the credit card passed is also around 40,000 customers already on-boarded and using with a healthy transaction base as well. So GPV is solid and we're on track on those two main metrics. So that's very promising. And if you look at the brand landscape, whether it's credit card or debit card, iO is on the top 10 brands for Chile. So I think that shows a good positioning.

The other venture that you didn't mention is [indiscernible] acquiring business. I think that's another very mature business that BCP is now embracing in their SME business to continue to grow, because it complements the value proposition and it's still growing in fee income, the GPV volumes are good and the customer base continues to grow.

On the iO side, we're focusing more on the mass affluent segments in Peru with a new value proposition that is completely digital. Growth is still slow. We're growing, because we have a value proposition that is still not complete with the credit card, that we're seeing good transaction levels and good levels of active users, stickiness in terms of the customers that we do acquire stay with iO for the past 12 months. So that is promising as well.

**Carlos Gomez Lopez**
So if you can expand on iO, are you already in the general advertising level or still in the friends and family phase?

**Francesca Raffo**
No, we're at the general advertising level. We still use a lot of digital marketing, more than TV or mass market advertising. But we are open to the public, using at this point only BCP’s risk policies. So, we’re using BCP’s risk modeling to target customers that are basically not currently BCP customers with a credit card.

**Carlos Gomez Lopez**
And can we have an idea of the order of magnitude of customers that you have either activated or registered? Again, not exact numbers, but how many are we talking about, 100,000, 10,000?

**Francesca Raffo**
No, we're at the 10,000 number still. This is an early venture yet.

**Carlos Gomez Lopez**
Thank you so much.

**Francesca Raffo**
Thank you.

**Operator**
The next question is from Andres Soto with Santander.

**Andres Soto**
Good morning all and thank you for the presentation. My question is regarding dividends. You guys declared a dividend that implies a significant increase versus last year, 40%. And yet when I look at the capitalization levels of your main subsidiaries, they are still above what you say is the minimum that you expect. Specifically, when I look at BCP, BCP is currently at 12% and you say that the target post dividends is 11%, at Mibanco it's at 16% versus 15% that you set as a target. So, my question is, what prevented you from being more aggressive in terms of dividend distribution and if you see any space for additional distribution of special dividends throughout the year?

**Cesar Rios**
First, I am going to address probably the capital levels of the operating units and after that, the dividend at Credicorp level. Actually, we set up a minimum of 11%, as you rightly mentioned, at BCP and we usually put some kind of a small cushion. Particularly at the end of the quarter in BCP, we have a decrease in corporate loans that were beyond what we were expecting. For that reason, we have in our Core Equity Tier 1 above that was going to be, I would say, unexpected level, some decimal points there. And at Credicorp level, we expect to have a growing first dividend through the year.

So, we feel that this was a significant increase over the last year. And we, based on the capital needs of the remaining part of the year, can evaluate further dividends.

**Andres Soto**
Perfect.  Thank you, Cesar.

**Operator**
The next question is from Alonso Aramburu with BTG Pactual.

**Alonso Aramburu**
Good morning.  And thank you for the call.  I wanted to ask also about Yape. Regarding the multi-installment loans, which you guys have been growing lately, can you comment on the asset quality behavior of those loans? What are the size of those loans? Are these going to be new clients, non-BCP clients? And have you been able to develop a risk model based on Yape data, or are you still using the BCP risk models?

**Gianfranco Ferrari**
Good morning, Alonso. Going to the specifics, in Yape we started with one installment loan, very, very short duration, less than 30 days. NPLs have been very, very low. Surprisingly low, I would say. And that has been mostly targeted to or using BCP's model. We've learned with those loans and now we've launched multi installment loans, which are longer in tenor and larger in tickets. And we are currently also using the data and pilots so as to enhance the models at BCP that haven't worked solely with BCP data and also leveraging on Yape's data. Today, as I mentioned in my initial words, we're at very early stages in the lending business in Yape but so far the performance of that business is very promising.

**Operator**
The next question is a follow-up from Yuri Fernandes with JPMorgan.

**Yuri Fernandes**
Thank you guys for taking my question again. Just a follow-up on capital. Two topics. Do you have excess capital at the holding? I remember sometimes in the past, Credicorp Holding had excess capital, so just checking if there is any capital there. And two, FX, I know the sol has been mostly stable. But can you remind us, whatever the sol goes, do you have any quarter two impact? Does FX impact your capital base because you have, I don't know, loans in dollars and this can affect your RWAs? Can you just refresh me here on FX volatility for you? Thank you.

**Gianfranco Ferrari**
I'll take your first question and then ask Cesar for the second one. We've explained it before that the policy we have is we retain whatever is needed from profits, whatever is needed at the subsidiaries level to fund growth within the common equity tier, one that we've decided to get. From that, which basically are Mibanco and BCP and obviously at Pacifico regarding the solvency ratios we need to maintain.

Beyond that, the policies that we pay, all of the subsidiaries pay dividends in full of the rest of what is needed to Credicorp. As Cesar mentioned, the policy we're following at Credicorp is that the usual dividend to rise it on a yearly basis and that's the reason we've risen this current dividend. And depending on the performance of the economy, depending on the growth of the businesses and depending of inorganic growth activity opportunities that we may find, we do pay extraordinary dividend in the last quarter, the last quarter or the second semester of the year. That's how we manage it. So going to the specific question, yes, short answer is yes we have excess capital but the logic is what I just explained.

**Cesar Rios**
And regarding the second question, I would like to remind you that our functional currency is soles. And our books are, I will say, by policy structurally balanced and neutral. So, we try to maintain in all the subsidiaries within a very short range outside of a specific trading operations a balanced book. So, we are going to have some impact for the FX impacts in the P&L. But structurally, we are neutral in operating currency at subsidiary level.

Given that we have operations outside of Peru that are conducting the business in other currencies, dollars or Colombian pesos or Chilean pesos, in which case we have on top of the volatility of the FX and the P&L, an impact of the relative exchange from this currency to soles in the balance sheet reflected as non-realized losses or gains. At this point, these impacts are very moderate.

**Yuri Fernandes**
Thank you very much, Cesar and Gianfranco. That’s my final one. Thank you.

**CONCLUSION**

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

**Gianfranco Ferrari**
Thank you. Thank you all for your questions. As Cesar mentioned, we're optimistic about Credicorp's ability to realize our revised guidance for 2024 and reiterate our 2024 ROE guidance. Furthermore, I'd like to reaffirm that we're confident in our ability to achieve the 18% sustainable ROE by 2025 based on the following drivers: a resilient NIM as we have managed the sensitivity of our margins to market interest rates on the back of our asset liability management and our ongoing shift towards retail loans; a reduced cost of risk as we leave the current [indiscernible] in the credit cycle behind; and enhanced efficiency as Yape and all disruptive initiatives mature.

Moreover, the political environment now is clearly more stable than one a year ago, and we expect that the current administration will remain in office until 2026. This is without a doubt positive to business confidence. Having said that, the recent S&P downgrade should serve as a wake-up call for us. Merely having stable governments is insufficient to capitalize the robust growth needed to [indiscernible] improve. We need our executives and legislative authorities to take bold steps forward in fostering growth and safeguarding democracy. This entails implementing structural reforms in education and health and eliminating the bureaucratic barriers that hindered execution of our mining and infrastructure projects. As leaders, it is our responsibility to advocate for policies that unlock our country's untapped potential and drive progress.

And on that note, we recently published our 2023 annual and sustainability report, prompting me to take this opportunity to reaffirm our commitment to our purpose, to contribute to improving lives by driving the changes that our countries need.

Lastly, I would be remiss if I do not mention that this marks Cesar Rios' final presentation in our quarterly earning calls. I wish to express my gratitude for his invaluable contribution during his tenure as CFO. Starting July 1, he will transition to the role of Chief Risk Officer at Credicorp and BCP, leading our risk management strategy into a new chapter as we continue to tap new segments and markets. Additionally, I look forward to working closely with Alejandro Perez-Reyes in his new position as CFO of Credicorp and BCP.

Our experienced leadership team has a long track record of successfully managing through both challenging economics and regulatory environments. We're focused on driving sustainable profitable growth and building long term value for our shareholders through prudent capital and risk management. Thank you all for participating in today's call.

**Operator**
Thank you, ladies and gentlemen. This concludes today's presentation. You may now disconnect.