

Credicorp Ltd.

Q3 2024 Results Conference Call

November 8, 2024, at 9:30 a.m. Eastern

CORPORATE PARTICIPANTS

Milagros Cigüeñas – *Investor Relations*

Gianfranco Ferrari – *Chief Executive Officer*

Alejandro Perez-Reyes – *Chief Financial Officer*

Francesca Raffo – *Chief Innovation Officer*

Cesar Rios – *Chief Risk Officer*

Carlos Sotelo – *Chief Financial Officer, Mibanco*

PRESENTATION

Operator

Good morning, everyone. I would like to welcome you to the Credicorp Limited Third 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 a listen-only. There will be an opportunity for you to ask questions at the end 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 Webphone on your computer, please use the keypad on your computer screen. If you are using a speakerphone, please make sure you mute your function and it's turned off to allow the signal to reach our equipment.

Now, it is my pleasure to turn the conference call over to Credicorp's IRO, Milagros Cigüeñas.

Milagros Cigüeñas

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 and Carlos Sotelo, 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. I refer you to the forward-looking statements 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 begin the call with remarks on the improved macro environment, a brief overview of our quarterly results and recent developments, followed by Alejandro Perez-Reyes, who will provide a more detailed analysis of key macroeconomic indicators, 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 today. The positive momentum we saw in the first half continued into the third quarter, allowing us to deliver a record high bottom line of S/1,523 million this quarter. Additionally, we distributed a special dividend, achieving a total dividend payout of 75.3% to date. This performance was driven not only by an improving macroeconomic climate, liquidity inflows captured from pension withdrawals and a relatively more stable political environment, but more importantly, by the strategic initiatives we've implemented across the organization. We've reached a pivotal inflection point where the benefits of these initiatives are consistently materializing across our businesses, reinforcing our competitive strengths and further decoupling our performance from the external macroeconomic factors.

Despite geopolitical tensions in the Middle East, we are maintaining our GDP growth projections of 3% for 2024 and 2.8% for 2025 on continuing signs of recovery in Peru. Though we do recognize that ongoing developments in that region and the results of the US elections could cause some volatility. In October,

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inflation rose to 2%, up from 1.8% in the previous month, which was the lowest level in nearly 4 years. As such, it remains within the Central Bank's target range of 1% to 3%.

Our strategy to diversify revenue streams with the goal of generating 10% of the risk-adjusted revenues from new businesses by 2026 is strengthening our resilience in the current environment. This approach is particularly important given the slower-than-expected recovery in business confidence, which impacts private sector investment and demand for wholesale loans. At the same time, we remain committed to prudently managing retail loan growth. Importantly, we are seeing a reduction of NPLs, supported by additional liquidity from pension withdrawals.

As discussed during our recent strategic update, we remain truly focused on deepening [audio distortion 4:37] penetration with new value propositions, exploring untapped business segments and accelerating the adoption of transformative technologies. While we remain committed to leading the way in shaping the financial products and customer experience of the future, we will do so with a disciplined approach, ensuring alignment with our strategic goals and a prudent financial management.

Now, moving on to the regulatory front. After years of political debate, Peru enacted a pension system reform in September, marking a significant step towards enhancing financial security for retirees. We're optimistic about its potential to strengthen the system's ability to generate national savings into infrastructure and productive investments, driving long-term economic growth.

Before turning to our third quarter results, let me discuss a few recent corporate developments. Starting with Tenpo, our digital wallet in Chile. After quickly establishing a strong presence in a competitive market, we received provisional approval from the Chilean Financial Market Commission on October 25th to create a new banking entity named Tenpo Bank Chile. This is a significant milestone from Credicorp's expansion into the Chilean financial market as Tenpo advances towards securing full operational authorization, which we expect to happen in 2025, becoming the first digital bank to operate in Chile. Next steps for Tenpo to become a neobank [ph 6:16] involve obtaining existence and operational authorizations from the CMS.

Furthermore, reaffirming our commitment to innovation and our goal of revolutionizing the financial ecosystem in the region, Francesca Raffo, our Chief Innovation Officer, has resigned from her position as Deputy General Manager at BCP to focus exclusively on leading innovation at Credicorp and continue the transformation of the financial markets in Peru and Latin America.

Lastly, I'm pleased to share that on October 31st, we announced the acquisition of the remaining 50% stake in our joint venture with Empresas Banmédica that includes three businesses: the private medical insurance, corporate health insurance for employees and medical services. The acquisition strengthens Credicorp's ability to fulfill its aspiration of creating a more sustainable and inclusive economy by improving insurance and healthcare access while advancing financial inclusion in Peru.

Turning now to the third quarter results. We delivered a strong ROE of 18.5%, primarily driven by universal banking and insurance and supported by diversified revenue streams and high levels of transactional activities in a recovering economy. Risk-adjusted NIM improved, reflecting a disciplined interest rate management strategy, along with our leading low-cost funding position and lower provisions.

Notably, our robust solvency allowed us to declare a special dividend of S/11 per share while also contemplating our plans for continued sustainable growth. We're witnessing significant benefits from our investments in innovation and enhancing digital capabilities, which strengthen our competitive moats, elevate our relationships with current clients and promote financial inclusion. Looking ahead, we maintain our GDP growth expectation of 3% for this year and expect a similar outlook for 2025.

Mibanco's performance is improving, driven by both the overall economic recovery and the specific learnings and measures taken regarding origination, monitoring, collections and rescheduling processes. We are continually evaluating opportunities for further structural risk management and operational improvements to achieve our minimum target of 20% ROE. As we make progress, we will keep you updated.

We remain committed to the long-term growth potential of the market served by Mibanco given its low market penetration. Additionally, we are seeing increasing synergies between Mibanco and Yape, derived from the potential for enhanced insights from the massive amounts of data collected by both companies.

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

Alejandro Perez-Reyes

Thank you, Gianfranco and good morning, everyone. As Gianfranco mentioned, we delivered strong overall operating and financial results, including a record high net income. This performance was achieved despite an environment of negative loan growth and an improving, but still elevated, cost of risk, which attest to the resilience of our businesses and the power of Credicorp's diversified revenue base.

As I discuss the highlights of the quarter, I will focus on the quarter-over-quarter results to emphasize recent shift in trends. Results have been positively impacted by an uptick in transactional activity, favorable results from recent risk management faith [ph 10:08] measures and increased liquidity levels across the financial system, partly attributable to pension fund withdrawals. While the regional liquidity increased loan amortizations, it also positively impacted asset quality, funding, funding costs and transactional level.

Loans contracted 1.2% measured in average daily balances and 3% in quarter end balances. This contraction was driven primarily by corporate loans at BCP and by Mibanco amid more restrictive provision guidelines. On the other hand, asset quality improved. The NPL ratio dropped 12 basis points to 5.9%, driven primarily by BCP and Mibanco.

At BCP, the NPL contraction was led by the corporate, consumer and credit card segment. Provisions fell 20.6%, driven primarily by improved payment performance in retail banking at BCP and Mibanco. As a result, the cost of risk fell to 2.4%.

We delivered stronger margins with net interest income increasing by 3.5%. This growth was driven primarily by a decrease in interest expenses as low-cost deposits continue to [indiscernible 11:19] in the mix and now represent 56.2% of the funding base. As a result, NIM increased 10 basis points to stand at 6.4%.

Noninterest income contracted this quarter as regulatory changes impacted the foreign transfer service businesses at BCP Bolivia. Fee income contracted 3.5%. However, excluding BCP Bolivia, fee income rose 4.4%, benefiting from strong transactional activity at BCP through credit cards, debit cards and Yape. Gains on FX transactions contracted 20.6%. However, excluding BCP Bolivia, they grew by 1.9%, boosted by increased volumes.

Lastly, insurance underwriting results fell 7.5%, reflecting less favorable reinsurance results in the P&C business. All in all, we delivered an 18.5% ROE this quarter, supported by the aforementioned revenue

dynamics, active risk management and disciplined cost control while maintaining sound capital levels. On cumulative terms, ROE stood at 17.7%.

In the third quarter, Peru's economy continued to recover. Economic activity grew 4% year-over-year on average in July and August. Notably, non-primary GDP accelerated by 4.2% in the same period, its highest growth rate in more than two years. In September, GDP growth is expected to have slowed down slightly, bringing the quarterly growth rate to approximately 3.5%.

Favorable commodity export prices, coupled with lower import prices, have driven terms of trade to historical highs. This trend is expected to provide a tailwind for growth in the coming quarters, particularly if it propels higher mining investment. According to the Central Bank, expectations for the economy and for investments have improved and have remained at the optimistic range for most of the year.

The Shanghai port, set to be inaugurated next week during the Asian Pacific Economic Cooperation meetings, is projected to boost GDP by 0.3% in 2025 during its first phase of operation, according to the Central Bank. The new port will reduce shipping times between Asia and Peru by 10 to 15 days. This improvement in efficiency has the potential to transform trade dynamics and routes between the West Coast of South America and Asia.

Public investment has also driven economic growth, rising by 25% year-over-year in the first 9 months. This constitutes the best sprint in 11 years, excluding the pandemic period.

Recently, Moody's and Fitch reaffirmed Peru's credit rating, three and two notches above investment grade, respectively. Both agencies upgraded the outlook from negative to stable. Moody's emphasized that the adoption of political reforms has alleviated medium-term concerns about institutional stability. Meanwhile, Fitch noted that some policymaking has supported economic recovery this year and preserved broad macro financial stability. Considering the recent economic developments, we reaffirm our Peru's GDP growth forecast of 3% for this year and expect a similar growth rate for 2025.

The Federal Reserve recently began easing its policy stance with a 50 basis point cut in September, its first reduction since the pandemic, followed by a 25 basis point cut yesterday. While further cuts are expected, uncertainty remains regarding their pace, particularly as the economy's trajectory will depend on the new government's policies. Consequently, volatility in dollar rates is likely to persist.

Since April, inflation in Peru have comfortably remained within the Central Bank's target range of between 1% and 3%, while core inflation followed suit more recently. The gradual rate cut approach adopted throughout the year is expected to continue in the coming months as the rate approaches its neutral level during the first half of next year.

In Colombia, inflation slowed to 5.8% year-over-year in September. This rate continues to be above the upper limit of the target range, which is between 2% and 4%. The Central Bank continues to pursue our restrictive policy.

Finally, in Chile, the Central Bank has gradually reduced the pace of monetary easing as the rate moves towards a neutral level and the bulk of cuts have already occurred. Since July 2023, the policy rate has fallen 600 basis points. This has led the country's currency to depreciate nearly 10% year-to-date, offsetting the positive impact of higher copper price.

This quarter, BCP's profitability has been boosted by a reduction in the cost of funding, higher [audio distortion 16:15] levels and improvement in client payment performance as risk management measures took effect and liquidity rose in individuals on the back of inflows from pension fund withdrawals.

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Key quarter-over-quarter dynamics included total loans measured in average daily balances fell 0.8%, driven by a reduction in the corporate loan segment after a large client from the construction sector repaid a long-term operation and by a drop in individuals where excess liquidity was [audio distortion 16:49].

NPLs fell 4.6%, mainly driven by wholesale banking, which raised loan repayments by a corporate client from the commercial real estate sector and consumer and credit cards, fueled by improvements in origination, monitoring collections and rescheduling processes and by clients who leverage excess liquidity to make repayments.

In terms of drivers of results, NIM rose 8 basis points to stand at 6.2%, aided by a low-cost funding structure that reflects our strategy of strengthening primary banking relationships with our clients. Other core income grew 6.9%, driven primarily by an uptick in fee income from transactions via credit and debit cards and, secondarily, by higher fees from the payments line in Yape.

Cost of risk fell 51 basis points to stand at 2.1%. The contraction in provisions was driven primarily by an improvement in payment performance in retail banking. In individuals, particularly in consumer and credit cards, provisions fell after the weight of newer and healthier vintages within the loan portfolio rose, rescheduling efforts were ramped up in the last quarter and debt repayment rose in a context marked by higher liquidity across the system.

In SMEs, the contraction in provisions reflected mainly the fact that newer and healthier vintages increased their weight within total loans and less refinancing was granted.

Regarding year-over-year dynamics, I would like to highlight income growth. NII rose 12.8%, fueled mainly by an uptick in interest income and by a drop in the funding cost. Other core income rose 18.2%, boosted by an increase in transactional level. BCP's transactional business has become increasingly relevant, as illustrated by the upward trend in the ratio of other core income to assets, where Yape has contributed greatly to fee generation.

On a year-to-date basis, BCP continues to improve efficiency through positive operating leverage. Operating expenses rose 10.4%, driven mainly by disruption, personnel expenses and the increased spending on licenses, system infrastructure usage and cloud capacity in a context of growth in transactions via [indiscernible 18:59] channels. Meanwhile, operating income grew 12% and BCP's efficiency ratio stood at 37.4%. In this context, BCP's third quarter contribution to ROE rose to 24.5%, standing at 22.9% year-to-date.

The number of active yapero continued to grow this quarter, reached the 13 million mark. This put us well on our way towards reaching our aspiration of 16.5 million active users by 2026. These users are making on average 44 transactions per month.

In this context, Yape revenues continue to accelerate while expenses remain under control. At the end of last quarter, revenue per active users reached S/4.9, further decoupling from expenditures per active user. With this achievement, we are on track to realizing our aspiration of ensuring that disruptive initiatives contribute significantly to Credicorp's revenues after provisions.

Yape's payments business is Yape's forerunner for revenue growth with a potential of growing 4x going forward, as mentioned in our strategic update. Income generation this quarter was fueled by Yape Empresas, which offers value-added services to businesses. Additionally, bill payment transactions have risen 3.3x since the third quarter of 2023.

Within the financial business line, revenues are obtained mainly from floating, while loan disbursements continue to grow exponentially. By the end of September, we had disbursed loans to 1.1 million clients and are on track to achieving our 2026 aspiration of 5 million yaperos with a loan disbursed, while maintaining credit risk under control. It is important to note that 42% of the aforementioned borrowers received their first loans in the financial system through Yape.

Finally, our marketplace business has been a lever in bolstering customer engagement. This is reflected in the gross merchant volume, which has grown 2.7x year-over-year, mainly through Yape accounts.

At Mibanco, the NPL ratio is improving at a faster pace than most of its peers, thanks to the risk management measures taken. On a quarter-over-quarter basis, Mibanco's total loans, measured in average daily balances, fell 4.8%, impacted by stricter origination policies. This drop reflects a contraction mainly in higher ticket loans, which was partially offset by growth in new disbursements in small ticket, higher-yield loans. Despite the drop in loans, NIM rose 25 basis points to 13.9%, primarily due to the drop in the cost of funding after the funding rate decline.

In terms of portfolio quality, NPL fell 8%, driven by a reduction in overdue loans. This evolution was fueled by tighter adjustments in origination guidelines, improvements in debt collection management and by debt relief facilities in June and July of this year. The improvement in payment performance led to the cost of risk to fall 153 basis points to stand at 6.2%.

From a year-over-year perspective, I would like to highlight the resilience of Mibanco's NIM. Our active loan pricing management, coupled with a decrease in the cost of funding, helped sustain NIM despite a loan contraction. Operating expenses on a year-to-date basis remain under control and efficiency stood at 52.8%. In this context, Mibanco's third quarter contribution to ROE rose to 9.4% and stood at 8.9% year-to-date. We expect risk management measures to continue to yield positive results as healthy loan growth resumes. These dynamics should drive a controlled cost of risk and help us recover profitability levels.

Mibanco Colombia's profitability has moved into positive terrain. Our recent strategy to slow down portfolio growth, control risk and strengthen efficiency has bore fruit.

Profitability at Grupo Pacifico continued to be strong with ROE standing at 24.3%. This strength was attributable to solid investment performance and a favorable contribution from the corporate health insurance and medical services business. Net income, however, dropped 2% quarter-over-quarter on the back of a deterioration in insurance underwriting results due to higher claims, particularly in credit lines. It is worth highlighting that this quarter, we started a 15-year partnership with Falabella for the distribution of insurance products. This partnership represents a great opportunity to facilitate access to insurance for more Peruvians.

From a year-over-year perspective, Grupo Pacifico's net income dropped 23%. This decline was mainly driven by lower insurance underwriting results, driven by medical assistance and credit line products, and a base effect associated with last year's one-off net gain from exchange difference. This quarter's profitability is representative of the sustainable ROE level we expect to deliver at Pacifico.

Now, I want to address the transaction we announced last week. In line with our strategy to expand our presence in Peru's insurance and healthcare markets, Credicorp reached an agreement to acquire Empresas Banmédica's 50% interest in our joint venture with Pacifico Seguros. The acquisition includes Banmédica's 50% stake in the private health insurance, corporate health insurance and medical services businesses and is subject to regulatory approvals and other standard conditions. The transaction value stands at S/1,131 million and is accretive to Credicorp's earnings from day one.

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I would like to underscore three key aspects of this strategic move. First, significant growth potential remains in both the insurance and healthcare sectors in Peru. The healthcare sector is underserved with only 1.6 hospital beds per 1,000 inhabitants. Similarly, private insurance penetration is in the low single-digits, pointing out to significant growth opportunity.

Second, by increasing our participation in both sectors, we aim to deliver a comprehensive value proposition to clients while maintaining a strategic hedge across our business portfolio. Third, Credicorp holds deep expertise and a proven track record in these sectors with over 25 years in health insurance and 13 years offering medical services.

In summary, this acquisition is a natural progression for Credicorp, reinforcing our commitment to high-quality products and services in the insurance and healthcare sectors. It strategically positions us to capture growth opportunities and continue delivering exceptional value for our clients and shareholders.

Profitability in investment management and advisory business remains sound with ROE standing at 15.9%. This performance was attributable to favorable business dynamics at our less volatile units, namely wealth management, asset management and our sales activities within capital markets. These units are benefiting from increased transactional activity and growth in AUM.

Net income, however, registered a 16% decrease quarter-over-quarter. This drop was primarily attributable to a basis [audio distortion 26:07] was associated with our discontinued corporate finance business unit and to less favorable treasury results. On a year-over-year basis, net income rose 77%, led primarily by our capital markets business.

Operator

Pardon me, ladies and gentlemen, it appears we have lost connection to our speaker line. Please stand by while we reconnect. Thank you for your patience.

Hello, everyone. The speakers are back. So, we will continue right where we left off. Apologies for any inconvenience.

Alejandro Perez-Reyes

Yes. Sorry for the technical difficulties. I'm going to restart from the part of the consolidated evolution of Credicorp on Slide 13.

So, beginning with the quarter-over-quarter dynamics for the balance sheet for Credicorp's consolidated evolution. On the asset side, cash and equivalents grew in the context of excess liquidity, which boosted the level of interest-earning assets despite a decline in loans. Loan balances decreased at BCP, mainly due to corporate and individuals and at Mibanco, as previously explained. This shift in the asset mix led the yield on interest-earning assets to drop 5 basis points.

On the liability side, an increase in low-cost deposits was what fueled by withdrawals from pension funds led our cost of funds to drop 18 basis points.

On a year-over-year basis, on the asset side, cash and equivalents increased and the loan portfolio contracted, following similar dynamics as seen in the quarterly analysis. The investment portfolio in turn increased and its duration was extended. In this scenario, the yield on interest-earning assets fell 9 basis points.

On the funding side, the aforementioned increase in low-cost deposits resulted in a favorable funding mix despite an increase in due to banks [ph 27:54] and recent bond issuances by BCP. Against this backdrop, the cost of funds fell 47 basis points, largely outpacing the decline in the yield on interest-earning assets.

Moving on to loan portfolio quality. NPLs fell 4.8% quarter-over-quarter, driven by both BCP and Mibanco via the dynamics mentioned earlier. It is important to note that this quarter, the evolution of the NPL volume reached a turning point, particularly in the segment most impacted by the recent credit cycle, individuals and the structure of the SMEs portfolios at BCP, as well as by Mibanco's portfolio. The improvement in the payment performance, coupled with successful risk management measures at both BCP and Mibanco, led provisions to drop 20.6% quarter-over-quarter, while the cost of risk decreased 64 basis points to stand at 2.4%. In this context, the NPL coverage ratio rose 364 basis points quarter-over-quarter to stand at 98.7%.

Moving on to analyzing our income and expenses. To analyze the evolution of core income, the most efficient approach is to exclude BCP Bolivia, as regulatory changes impacted its foreign transfer service business. After excluding Bolivia, core income rose 3.7% quarter-over-quarter, driven mainly by NII through a decrease in the cost of funding and an uptick in fee income via credit cards, debit cards and Yape transactions.

In terms of margins, NIM increased 10 basis points to stand at 6.43%, while risk-adjusted NIM rose 53 basis points to stand at 4.93%. I would like to emphasize that the year-over-year increase in NIM of 32 basis points reflect both the rising and strategic advantage of our funding costs and the fruits of a disciplined interest rate risk management strategy.

Analyzing expenses and efficiency on an accumulated basis, operating expenses rose 8.2%, driven primarily by core businesses at BCP and disruptive initiatives at the Credicorp level. Expenses for disruptive initiatives at the Credicorp level rose 28.1%. The most significant expenditures were in Yape, Culqi and Tenpo, which combined accounted for 71% of disruptive expenses in the first 9 months of the year. Finally, an uptick in operating income and accelerating operating expenses led the efficiency ratio to drop 51 basis points to stand at 44.6% in the first 9 months of 2024.

This quarter, ROE stood at 18.5%, driven by strong results in our Universal Banking and Insurance businesses. ROE for the first 9 months was 17.7%. Net equity was slightly impacted this quarter by the payment of an extraordinary dividend of S/11 per share. Accordingly, our dividend payout ratio stands at 75.3% for the year. It is important to note that BCP and Mibanco have not yet declared an additional dividend. These results are a testament to our resilience and ability to adapt to challenging circumstances.

Now, I will move on to our updated guidance. As previously stated, our expectation for GDP growth remains at 3%. Regarding loan growth, although economic activity continues to enjoy positive momentum, the appetite for long-term financing in wholesale banking remains low. Additionally, our approach to origination in our retail banking and microfinance segments has been cautious. These factors, coupled with the impact of pension fund withdrawals, have led us to revise our guidance for total loan growth measured in average daily balances to around 0%.

Our NIM is expected to situate in the upper end of our guidance range, which is between 6% and 6.4%. We expect the cost of risk in turn to situate in the upper end of our guidance, which is between 2% and 2.5%.

We achieved solid efficiency levels as we continue to invest in our disruptive initiatives. We are controlling growth in expenses in our core businesses and expect to close the year with an efficiency ratio near the

lower end of our guidance, which is between 46% and 48%. Given the aforementioned dynamics and based on the strong evolution of our other income and insurance underwriting results, we reaffirm our ROE guidance for 2024 at around 17%.

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

QUESTION AND ANSWER

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 Webphone on your computer, please use the keypad on your computer screen. If you are using a speakerphone, please be sure that your mute function is turned off to allow your signal to reach our equipment.

We'll pause for just a moment to allow everyone the opportunity for questions. We also ask that you only ask one question at a time. After each question has been addressed by our speakers, you'll then be allowed to ask as many follow-ups as needed, but again, please only ask one question at a time. Thank you.

The first question comes from Ernesto Gabilondo with Bank of America.

Ernesto Gabilondo

My first question will be on asset quality and cost of risk. You have been mentioning the strategy to get higher exposure into the retail segment, but at the same time, probably [ph 33:51] Mibanco could be in a much better position next year. So, wondering how you see the cost of risk evolving in 2025?

Alejandro Perez-Reyes

Yes, sure. As you mentioned, we have seen an improvement this quarter. We think the trend will continue. There might be, perhaps, some change in the gradient of the trend once the pension money starts— goes out of the system, but still, we are expecting cost of risk to continue to come down. Our expectation for the next year and the following years is to continue moving lower.

Again, as you know, we are changing mix in— we were expecting a change in mix in our portfolio. So, we are not expecting to go back to cost of risk like pre-pandemic, but more based on a mix than the individual segment. So, our expectations for 2025 are a lower cost of risk than what we are having this year.

Ernesto Gabilondo

So just again, a follow-up on this. So, cost of risk guidance for this year was between 2% to 2.5%, probably you will be at the high end in 2024. Looking to 2025, maybe between the mid to low end of that guidance or that range?

Alejandro Perez-Reyes

We haven't given guidance yet for next year. We will beginning of next year. I would just mention that we're expecting a lower number for the coming year. We'll give more details soon.

The other thing to keep in mind to have a sense of the recovery is that we're expecting a lower number despite the fact that we're not returning any provisions like we did this year. So, this year, we're going to be in the upper side of the 2% to 2.5%, but we returned the provisions from El Niño [ph 35.59]. Next year, we expect a lower number without necessarily having any kind of provisions return— specific provisions.

Ernesto Gabilondo

Then my second question would be on subsidiaries. So, can you share with us which are the subsidiaries with ROEs below Credicorp's ROE of around 17%? What do you think will be the strategy to get them closer to the Credicorp's ROE level? And considering that you will be developing these two neobanks, one in Peru and one in Chile, where do you see both banks reaching the breakeven point?

Alejandro Perez-Reyes

I'm sorry about the last part, reaching what? I didn't get that.

Ernesto Gabilondo

The breakeven point.

Alejandro Perez-Reyes

Okay. If you want, I can start with the ROE part. Basically, currently, when you look at the subsidiaries, most of them are having a good performance and trending towards the 18%, with Pacifico, BCP above the number. Credicorp Capital improving and hopefully, it will get very close in a couple of years. Mibanco has been really hit by the credit cycle, but our expectations are that, in the coming years, it will go back to the number more closer to the 20% mark, which is what we aim for in that business.

I don't know if any other—

Gianfranco Ferrari

Yes, maybe just to complement, Alejandro. From an overall perspective, I would say the underperforming line of business is microfinance. As Alejandro mentioned, we expect, next year, obviously to have a much better year in terms of ROE. As I mentioned in my initial words, we are targeting to have a sustainable ROE of 20% for the microfinance business.

Maybe the other one is not that relevant, but the other one that is underperforming is BCP Bolivia. As I always say, it's the right franchise in the wrong country. We're doing what we can. The ROE there might be around 12%, 13%.

Regarding the second part of your question, well, obviously, out of the large ventures or initial innovative business, Yape is beyond breakeven. Obviously, we have— I've mentioned it in previous calls, most of the sources of income at Yape have a J curve. So, we expect next year to be significant in terms of income.

Regarding the other large one, which is Tenpo, we expect at least two to three years to reach breakeven. Having said that, Tenpo is right on track and slightly better, actually, than the original business plan.

Operator

The next question comes from Renato Meloni with Autonomous Research.

Renato Meloni

So, you've mentioned how this excess liquidity in the system has helped the asset quality and your cost of funding. I wanted to understand if this is a short-lived impact or we're still going to see more of that in the upcoming quarters? And then how do you reconcile this asset quality improvement, but also excess liquidity with your growth perspectives for next year?

Alejandro Perez-Reyes

Sure. The specific event of the pension fund is a short-lived event. It has already— all the money has been deployed to clients. Some of it is still retained in accounts, so they could use more of that money if

they wanted. The actual effect, direct effect, has been considerable but not the only reason why we've seen this decrease in cost of risk.

What we're expecting is that this will fade out as it has done before. Remember, this is like the seventh withdrawal from pension plans. So, we've seen this dynamic before, but at the same time, when we think about what's going on, we are expecting, and we are actually seeing, growth in employment in the country, which is also very important. The last number for Lima for the last quarter was a 5% increase in formal employment. We have leading indicators on payroll payments that are very strong right now. So, what we're seeing is that this liquidity has given some air [ph 41:13] to people that were in a very tight position, but it's working, at the same time, as an improvement in the economy that should allow this trend that I was mentioning of cost of risk to continue to decrease.

Gianfranco Ferrari

And maybe just to complement, Alejandro, these Central Bank figures, the expectations for them is private investment to grow 2% this year and 4% next year. So, there are some, as Alejandro mentioned, both micro and macro leading indicators that provide us a lot of confidence that next year should be a better year in terms of the performance of the loan book, in terms of growth, I mean.

Renato Meloni

So next year, like higher growth, lower cost of risk?

Alejandro Perez-Reyes

Yes.

Operator

Question comes from Tito Labarta with Goldman Sachs.

Tito Labarta

First question, just on the guidance. You maintained the ROE guidance at around 17% for this year. You are running above that and a very strong quarter in 3Q. So, does that imply just normal seasonality in 4Q, so ROE should trend lower to get you down to that 17% or do you think there's upside to that 17% because you're running probably closer to 18% on ROE? So just to clarify, maybe some color on 4Q and if we should expect a relatively weaker quarter?

Alejandro Perez-Reyes

Sure. It is what you said. We always have some seasonality on the last quarter of the year. It happened exactly the same way last year. So, that should mean that we're not going to have— we kind of annualize a quarter like this one, there's going to be more expenses, but we are thinking that we probably will end up on the upper side of the around 17% mark.

Tito Labarta

Then my second question on your margin, you're running at closer to the high end of guidance, but how do you think about the sensitivity to lower rates, I guess, particularly in the US that's now cut rates again? How does the margin get impacted by lower rates both in Peru and in the US?

Alejandro Perez-Reyes

Sure. I mentioned last quarter our calculation we have— we've refined it a little bit for this quarter that a parallel shift of 100 basis points will have an impact on the first year of around 15 basis points on our margin and then goes up to around 25% in the coming year because of the duration of the portfolio. The full effect is felt in a longer period.

So, that is if we don't do anything, as you've seen, even though rates have been coming down for a little bit, we have been able to sustain a strong and, actually, a little bit growing NIM and expect to continue doing that going forward based on the low-cost funding advantage that we expect to keep growing on that side and also pricing and the mix in the portfolio.

So, there is the sensitivity for sure, and it is something that we are going to be facing in the coming months. But at the same time, with the local funding, the mix and the pricing, we think we'll be able to sustain and, actually, perhaps improve a little bit our NIM and more importantly, the risk-adjusted NIM.

Operator

The next question comes from Thiago Batista with UBS.

Thiago Batista

I have a question on Yape. Yape reached an impressive number of 13 million of active users, monthly active users, which is about probably half of the adult Peruvians. So, my question is, first, do you think formality a kind of bottleneck that could prevent further expansion of Yape or no or you can see the number of users expanding further even with the high levels [indiscernible 45:53] in Peru? And second, in the 16.5 million targets that you have for 2026, if I'm not wrong, this is including any kind of expansion to Bolivia, Colombia or the 16.5 million is only in Peru?

Gianfranco Ferrari

Yes. Let me answer the second question first. The figure we provided regarding Yape is only Peru. Even though, as you all know, we already are operating in Bolivia successfully, I would say.

Regarding your first question, which is actually the more relevant question, let me go a step back. And you're right, there's a point where the number of yaperos, even though we're still growing at around 300,000 to 400,000 yaperos per month, at some point in time, there's a limited number of Peruvians. But the strategy since the very beginning at Yape had like— it is a 3-stage strategy.

First one was to get the largest number of yaperos. The second, which is to increase usage. As of today, yaperos are using Yape, on average, 44 times a month. The first stage, which we are already— obviously, the three stages way progress together, is to generate income. So yes, there might not be the same level of growth in terms of either number of users or usage, but now we're focusing in terms of how income is going to keep growing. And that goes back to my original comment regarding the J curve in the new features we're launching within Yape.

Operator

And the next question comes from Brian Flores with Citibank.

Brian Flores

On Slide 13, we see a very improved composition on the funding cost. So, now, low-cost deposits are at 56% of the funding base. Just wanted to hear your thoughts, what is driving this big increase? What is your strategy going forward? Should we also think that these improvements in cost of risk should continue helping results?

Gianfranco Ferrari

Sure. We believe that the increase that you're seeing is mainly due to the transactionality capabilities and the principality we've been developing with our clients. So, our client-centric approach has made us— we've invested a lot in bringing them all the channels possible to interact with the bank as seamlessly as possible. What we're seeing is more and more clients working with us and leaving their floating with us, and that is what explains that growth. Our expectation is that there is still some space to keep growing in

that area. So, what we think is that we'll be able to continue to capture some of that floating that continue to grow on that line.

The second question was—

Alejandro Perez-Reyes

Continued improvement in provision.

M

Risk.

Gianfranco Ferrari

Risk. Yes. Yes. As I mentioned a little bit earlier, we are seeing a much better trend in the economy, both by the things that we did actively and also by the situation and the better situation in hiring and growth in the economy. So, our view is that cost of risk will continue to decrease regardless of this specific liquidity event that happened with pension funds in the last quarter.

Operator

Next question comes from Yuri Fernandes with JPMorgan.

Yuri Fernandes

I would like to explore a little bit the sustainable ROE. In the past Digital Day, you mentioned a target of 18% and you are tracking above it, even though capital has been super strong for the bank. So, I don't know, like looking versus 2018, it seems to be kind of a better quality ROE and you are just in the beginning of Yape and many of those initiatives. So just checking, do you continue to see 18% ROE as your sustainable target or no? Could we see some upside here?

Alejandro Perez-Reyes

Well, at the time, we do continue to see the 18% as a sustainable number. There are other forces like, for example, regulation in Peru moving closer to Basel III that will require us to have potentially more capital. So, when we look at the numbers as of now, we do think that the 18% is a reasonable, sustainable ROE that allows us to continue investing into the future and at the same time, provide a good return to our investors.

Gianfranco Ferrari

Maybe Yuri, just to complement, bear in mind what we mentioned at the Investor Day, we haven't changed the appetite for investing up to 150 basis points of ROE going forward. That's not set in stone. We will obviously have a very disciplined— keep our very disciplined approach, but if it's needed, we will keep investing for maintaining our success. At the same time, we do believe that 18% is a very interesting ROE for our investors.

Yuri Fernandes

If I may, a second one here, just on loan growth because you already mentioned margins. If I got right, margins should be resilient even though rates are coming down. But when should we see better loan growth? And I know you don't have a guidance yet for 2025, but if you can comment anything on the industry, like better economy, what should we expect? Because this was a little bit shy quarter for growth, right? So, just wanted to understand when should we see a better volume in Peru.

Alejandro Perez-Reyes

Sure. Yes, we do expect a growth in loan growth, and it comes from a couple of factors. From one side, the improvement in cost of risk also allows us to be— or to start to think about being a little bit more

aggressive on the lending side, because when you think about the reasons why— for the low loan growth, on the wholesale side, it's more of a demand issue in the sense that wholesale haven't been making long-term investments, as of yet. On the retail side, it's been much more on the offering side on our side and being more cautious and not necessarily accelerating. As the economy improves and the situation of our clients improve, we expect to be more active there.

At the same time, Gianfranco mentioned investor— private investment, I'm sorry, growing at around 4%-plus next year. I mentioned investor confidence being at the highest or actually having been positive for this long since 2019— early 2019. So, we start seeing more and more indications that there's a reactivation in the broader economy because GDP has been growing but more from the primary sectors. Now, we're seeing it in a more broader sense. So, those things make us feel that we are going to have growth in the coming year, and we have some calculations. We'll give the guidance beginning of next year, but we do expect growth to pick up.

Operator

The next question comes from Carlos Gomez with HSBC.

Carlos Gomez

Two specific questions. First on Banmédica. What is the main driver for this transaction? We understand that the shareholder in Chile, obviously is going through their own issues. In the long run, I mean, you made a strategic decision some time ago to have a partner in this business. Has that changed? Do you want to have this business by yourself or would you consider having a different partner in the future?

The second question, totally different on cybersecurity. We know that there has been a big leakage of data at a competitor in Peru. Has that affected you in any way? Do you think that is something that you have to monitor more?

Gianfranco Ferrari

As of today, our decision is to run the business by ourselves. Bear in mind that we've run that business for both the health insurance and the health providing business for several years before doing the joint venture with Banmédica. So, we feel quite comfortable to run it by ourselves. Also, the whole management team is going to stay running the current operations.

So, no plans to do another joint venture with another operator. Obviously, the future is the future, but as of today, nothing on the table in that sense.

I would ask Cesar to answer your second question.

Cesar Rios

Yes. We have been monitoring very closely the event. It's a sad event for the country, actually. We have been reviewing the information that we have in relation to that event in relation to our practices, governance. So far, we feel comfortable that the governance structure and investment we have been doing, but we strive to continuously improve our capabilities in this regard due to the growing trend in this kind of attacks and events globally.

Gianfranco Ferrari

So, we haven't been affected, Carlos?

Cesar Rios

We have not been affected.

Gianfranco Ferrari

To your specific question.

Operator

And the next question comes from Tejkiran KM with White Oak Capital.

Tejkiran KM

Just wanted to confirm my understanding. I think you commented on this before. The improvement in asset quality, do you see any positive trends in your clients beyond the impact of pension fund withdrawals?

Alejandro Perez-Reyes

Yes, we do. As I mentioned, we are seeing a lot of improvement in the economy, in the hiring, purchasing power of people in the country, so all of those dynamics should start to bring the cost of risk down. Also, we did a lot of measures from our side a few months ago that are starting to pay in origination, in collection monitoring. So basically, we expect the trend to continue regardless of what's happening with pension plans. What might happen is that the speed at which it has decreased in this quarter might change a little bit in the coming quarters, but we are seeing an improvement in the more fundamental part of the situation of our clients regardless of this specific event.

Just as a comment, for example, in the case of Mibanco, most of their clients don't have a pension plan and they haven't withdrawn anything. But yet, the cost of risk in Mibanco has improved in a very important way. So those are the types of things that we also consider when we're thinking about the trend in cost of risk.

Gianfranco Ferrari

Yes. Probably only to complement Alejandro, in the same lines, we have trying to understand the effects in different layers. One fundamental issue is the macro in terms of GDP, but also inflation, that has helped particularly in the consumer segment. The reduction in inflation has been a powerful positive force.

The second set of levers linked to our own management. We have been reducing the risk appetite, adjusting procedures and improve our capacities in terms of collections and rescheduling. This is going to continue, but this is a fundamental trend.

And the effect of the pension funds has had two different impacts. One very directly regarding consumers in arrears with people who have received the funds in the bank or in other banks, but we have been linked very specifically the event and has also impact in positive clients that has reduced a little bit the volumes because clients in with condition has used the funds to reduce.

So, we have two main fundamental trends that are going to continue. But even the third part has helped us to identify clients with high propensity willingness to pay, and we are actively rescheduling them.

Tejkiran KM

Just a follow-up on this pension fund topic. I think during the pandemic when I think three or four rounds of this happened, I believe you commented that because these pension funds are now selling long-term assets to meet the withdrawals, it led to an impact of long-term yields going down. Do you expect that to affect your interest margins in the fourth quarter or maybe early 2025?

Alejandro Perez-Reyes

I didn't get the question. Long term, what coming down?

Tejkiran KM

Long-term yields.

Alejandro Perez-Reyes

Yields?

Tejkiran KM

Longer tenure yields for your loans, yes.

Alejandro Perez-Reyes

Due to the fact that pension plans are coming out of the market, you mean?

Tejkiran KM

Yes.

Alejandro Perez-Reyes

Yes. No, we don't see really such a big impact there. Yes, they are less active in the market while they are recomposing their portfolio, but they will come back after this reform that Gianfranco mentioned earlier, pension plans should continue to grow and should continue to be an important player in the market. So, we are not expecting any fundamental changes in the yield dynamics in the market.

Tejkiran KM

If I have time for just one last quick question. I think Pacifico has been helping ROEs strongly for two, three years now. I think really appreciate the strong performance. Like you mentioned 20% as your target for, let's say, the microfinance business. Would it be possible for you to provide any color on what are your cross-cycle expectations for the insurance business?

Gianfranco Ferrari

Specifically, for Pacifico, which, as you just mentioned, has been outperforming, we mentioned it before, we expect to be in the 20%. So that's the sustainable ROE at Pacifico.

Operator

Our next question comes from Sergey Dubin with HL.

Sergey Dubin

I just want to clarify regarding NIM sensitivity. So, you mentioned that it's for 100 bps of parallel rates, your NIM moves by 15 basis points. Are you talking about for both dollar portfolio and soles portfolio? Can you give the separate sensitivity for dollar versus soles, please?

Alejandro Perez-Reyes

Sure. I am talking for both. Sensitivity is a little bit higher on the dollar side than on the soles side because of the duration of the portfolio, but it is not— I mean, if I'm talking about 15 basis points in the first year, you can think about 89 to 76 [ph 63:09], sensitivity in each part of the portfolio. That is kind of the calculation we have right now. Though it is a little bit higher on the dollar side.

Sergey Dubin

Then when you said that 15 basis points in year one and 25 basis in year two, meaning it's not additional 25 basis points, it's a cumulative 25 by year two, right? So, if rates move by 100 bps year one and just stay there, by year two, if you do nothing, your NIM should contract by 25 bps. Is that correct, broadly?

Alejandro Perez-Reyes

Yes. If it contracts 100 basis points, it's going to come down 15 on the first year and then all the way to 25 cumulative in the second year. That's right.

Sergey Dubin

Then just final question. So just looking at the slide on Page 6, where you show the Central Bank policy rates, it looks like Peru rates have started to come down earlier, obviously, than the US. So Peruvian rates according to this chart, start coming down in the end of '23, so you already had almost a year of lower rates in Peru. Then in the US, they just start coming down just last quarter or just September, I think. So, what's your kind of expectation on the rate outlook in Peru, specifically? How much of the repricing of the portfolio would you expect to see in 2025?

Alejandro Perez-Reyes

Sure. Yes, as you mentioned, the Central Bank started moving earlier. They started in [indiscernible 65:15]. They are at 5% as of now. So, we've already seen an important reduction in rates.

Having said that, our terminal rate or neutral rate for the Central Bank, we are around 4% to 4.25%. It's going to depend a little bit on the US, the new government, whether it creates inflation or not and what's going to be the neutral rate for the Fed, which is, of course, is something that the Central Bank in Peru is going to have in mind. So, we're expecting still for Peru 75 to 100 basis points more coming down that we expect them all to happen during 2025. That is our current stance.

Again, we'll have to see what's going on with the US and the policies they make and whether it generates inflation or not. And of course, that's going to have an impact, but again, that calculation is assuming we don't do anything. As you probably can see by looking— I don't know if you have in mind, but our NIM last year, at the end of last year, was 6%. We are expecting to be at a higher NIM this year despite the reduction from the Central Bank and we expect this to continue into the coming years.

We think that this change in mix plus the pricing, the retail is less sensitive to the price. So, this change from the pricing plus the cost of funds should allow us to keep growing NIM despite the fact that we don't have to work against those forces.

Sergey Dubin

Then just a very quick follow-up. So, what someone asked before regarding low-cost deposits now 56% of total and you said it's because you're improving transactionality. So, basically, if there's more kind of easy way to move money around and transact, people will continue to keep these low-cost deposits in there. That helps you from a cost of funding side. Do you have a target? It went up quite a bit, right? In the year, it went up by almost 600, 550 basis points. Do you have a target in mind where that could get to in the medium term?

Alejandro Perez-Reyes

We have expectations in what we're seeing. We haven't given that guidance. We don't give that information, but we do see it growing in the coming quarters.

Gianfranco Ferrari

Maybe just to complement and answer your last question. This is a very long-term strategy. It's not that we manage it quarter-by-quarter. I would argue that the results we're having today is the results of the investments we've been doing for years now in terms of value prop for our different segments like mobile banking, our webpage, the whole transactional features we provide, Yape and so on. So, there's not a target. It's very difficult to give a number. Having said that, we will thoroughly keep investing in that sense because bear in mind that the usage of cash in Peru is still very high. So, we do see a huge opportunity there.

Operator

The next question comes from Andres Soto with Santander.

Andres Soto

My question is regarding capital deployment. When I look at your capital ratios just before the extraordinary dividend and before the Banmédica transaction, BCP is running about 13% core equity Tier 1. Mibanco is at 18%. Do you have the numbers of how they will look like after those two events, the extraordinary dividend and the Banmédica transaction, which based on your numbers, it would represent \$300 million. Is that coming out of the holding or you will need to distribute dividends at the subsidiary level in order to pay for that?

Gianfranco Ferrari

Yes, the \$300 million have not been paid— by the way, just to be very specific, the transaction has been set in soles. We should be paying that when the authorities, both the [indiscernible 70:00] approved the transaction. So that cash hasn't been paid and it's going to be paid by Credicorp or the direct subsidiaries of Credicorp, not any operational subsidiary.

Specifically on the capital at both Mibanco and BCP, even though the special dividend was paid by Credicorp, as of September, dividends weren't paid from BCP and Mibanco. So that figure will be lower, obviously, by year-end or impacted negatively by year-end. As we always mentioned, going forward, we will keep our minimum common equity Tier 1 at those two subsidiaries and everything else is either paid as a dividend by Credicorp or invested in a transaction, which, by the way, we have nothing on the table today.

Andres Soto

So, based on that, by year-end, including the dividends from the subsidiaries and the payment of the Banmédica transaction, what will be the cash position at the holding company level?

Gianfranco Ferrari

The cash position at Credicorp level or at company level? So, at Credicorp level, we have like what we call a buffer, which is around \$200 million. That's what we normally see, which is obviously higher now because we retained the equivalent to \$300 million for the Banmédica transaction.

Alejandro Perez-Reyes

That's an important point. When we decided on the special dividend, we already considered the fact that we were going to probably, if we got to an agreement with Banmédica, we're going to have to pay an amount. So, that is already accounted for in the flow.

Andres Soto

Looking at your loan growth outlook, I understand you are not providing specific guidance, but you had Peru— you are giving actually guidance for Peru GDP growth next year at 3%, similar to this year. This year, the multiplier for loan growth was exactly zero. Does it make sense to expect that multiplier to be at 1.5x for next year, considering also your increased appetite for the consumer segment?

Gianfranco Ferrari

Let me put it this way. We don't expect the loan growth— the loan book to grow at zero next year. Two main reasons, Alejandro and Cesar have been quite clear before. Business confidence is improving. As a matter of fact, private investment should grow next year. So, on the wholesale— and maybe I'm oversimplifying here, but on the wholesale business, we expect growth because the level of confidence and appetite for investment and specifically in mining, there are some brownfield projects that have

already started. So that's one lever. The other lever is that what Cesar mentioned that since the cost of risk in the retail business, both at BCP and Mibanco, is decreasing, our risk appetite is going to increase.

Having said all of that, I wouldn't, as of today, give you a multiplier. Obviously, the multiplier [indiscernible 73:43] going to be zero, but I wouldn't say it's going to be 1.5x. Maybe next year in February, when we provide guidance, we will be much more specific.

Operator

Our next question comes from Alonso Aramburu with BTG.

Alonso Aramburu

You've answered most of the questions already, but just a quick follow-up on the loan growth and asset quality points that you made. I mean you mentioned that you are at a turning point in the cycle, but you also mentioned a few times in the report that you still have a strict origination policy. So, I'm just wondering, specifically at Mibanco, whether you're ready to relax some of those policies in the next couple of months before the end of the year, so we can see some loan growth there?

Gianfranco Ferrari

Sure. As we're seeing this improvement in cost of risk, we are not necessarily relaxing the measurements, but we are seeing more growth in the portfolio. So, the last couple of months, we've seen more activity in clients and we're expecting that to pick up. So, yes, we will relax it during the coming months as we confirm the trends and we feel more comfortable about the cost of risk, we should start to see more growth in the portfolio.

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 for all your questions.

Now, wrapping up today's call. In the first 10 months of 2024, Credicorp maintained a robust ROE of 17.7%. This performance is a direct result of the resiliency we have built into the business, which translated into a solid risk-adjusted NIM. Our performance also reflects the positive contribution from diversified noninterest revenues, which are seeing the benefits from high levels of transactional activity across the organization.

At Mibanco, we're seeing improving profitability on the back of the macro recovery, together with our strengthened risk management practices and prudent loan origination. We remain committed to maintaining sound lending standards while supporting micro entrepreneurs even through complex credit cycles and remain on track to meet our 20% ROE medium target for our microfinance business.

Looking at the macro context, Peru's economic outlook for the remainder of the year and 2025 remains positive, supported by low inflation, favorable commodity prices and public investment. Progress on large-scale infrastructure projects will also provide additional support for the local economy.

This positive environment aligns well with our strategic objectives and enhances the resilience of our core operations in the region. Against this backdrop, we also reaffirm our long-term target of 18% ROE. This profitability level will be supported by a resilient NIM during a period of decreasing rates and a reduced

cost of risk once the credit cycle is overcome. These dynamics will be further enhanced by diversified noninterest revenue streams and optimized efficiency as disruptive initiatives become cash flow neutral by 2026.

Lastly, we are on track to achieve our ambitious goals of having disruptive initiatives contribute 10% of Credicorp's revenues after provisions by 2026. Investments in digital transformation, especially through platforms like Yape, demonstrate our commitment to leading innovation and financial inclusion. As we continue to expand our digital and customer-centric offerings, Credicorp is well positioned to continue shaping the financial services of the future, harnessing growth from these new business models to further decouple from the macro, while providing enhanced value for our customers and stakeholders alike.

Thank you all for participating in today's call and have a nice weekend.

Operator

Conference has now concluded. Thank you for attending today's presentation. You may now disconnect.