Credicorp Ltd.

Second Quarter 2024

August 9, 2024 at 10:30 a.m. Eastern

CORPORATE PARTICIPANTS

Milagros Cigüeñas – *Investor Relations*

Gianfranco Ferrari – *Chief Executive Officer*

Alejandro Perez Reyes – *Chief Financial Officer*

Cesar Rios – *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 Second 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 a 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 are using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment.

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

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; Diego Cavero, Head of Universal Banking; Cesar Rivera, Head of Insurance and Pensions; 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, 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 macro environment and brief comments on our digital strategy execution followed by Alejandro Perez-Reyes who will present in more detail the evolution of key macro 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 today.

During the quarter, we made significant progress in executing our strategic initiatives across most of our operations resulting in a sound first half of the year. Our financial results were robust ending the quarter with resumed loan growth, a resilient risk-adjusted NIM, and a solid balance sheet. Importantly, as the economy improves, we are well positioned to continue to leverage additional opportunities and advance on our mission to efficiently provide products and services that meet our clients' needs while promoting financial inclusion.

Before I turn to discussing several specific areas of our focus at Credicorp, I'd like to comment on the context in which we are operating, particularly in Peru. GDP growth projections from local economies have been revised upwards and now align with our expectations of GDP growth of 3% for 2024. Improved weather conditions have broadly benefited the economy, especially the fishing, agriculture, and textile industries. Despite the ongoing government fragility, inflation remains among the lowest in the Latin American region with improved purchasing power paving the way for the Central Bank to further reduce its benchmark interest rate.

With this, our team is expecting the Consumer segment to improve in this second half of the year. These factors, combined with increased public investment and high copper and gold prices, underscore expectations for economic growth highlighting Peru's resilience.

Turning now to our second quarter results. We delivered a sound ROE of 16.2% driven mainly by Universal Banking, Insurance, and Investment Management & Advisory supported by improved loan growth and high transactional activity in a recovering economy. Risk-adjusted NIM remained resilient, reflecting strengthened balance sheet dynamics, a disciplined interest rate management strategy, and our leading low-cost funding position which together compensate for our controlled, although still high, level of provisions.

Additionally, having declared our dividend last quarter, we maintain a strong solvency and balance sheet position both of which are crucial to navigating the current credit cycle headwinds. We continue to see significant benefits from investing in innovation and enhancing our digital capabilities which are fortifying our competitive modes, elevating our relationships with current clients, and expanding financial inclusion. Looking ahead, we maintain our GDP growth expectation of 3% for this year and expect a similar outlook for 2025.

I'd like to take a few moments to address the performance of Mibanco Peru. We believe we have the right hybrid business model strategy which combines high-touch, in-person visits from relationship managers with digital tools including centralized risk assessment and an expert team in place. However, we're currently working under extraordinary circumstances. Systemic issues are affecting the Peruvian microfinance industry characterized by a high complex credit cycle where delinquencies and cost of risk are at the highest level since 2008. Although we're seeing customer rebound in consumer behavior, the most vulnerable segment served by microfinance will be the last to recover.

In this context, while Mibanco is performing better than its peers, ROE fell short of our expectations, and we still do not feel comfortable with respect to the risk assessment of our portfolio. We're currently conducting a thorough review of our risk capabilities while keeping a strong focus on efficiency and expect to have a much better assessment in the upcoming quarter.

Since launching our Microfinance business in 2009, we have navigated various market cycles generating good returns for the period. I am confident that our profitability will recover, although more gradually, than anticipated. We remain the industry leader in supporting the significant and essential population segment that Mibanco serves in Peru.

In Mibanco Colombia, we implemented a strategy last year to put our business back on course which included management changes. While there is still much work to be done, this business is now performing better in relative terms and is in line with our expectations.

To sum up, we remain fully committed to the long-term potential of Mibanco and believe that it offers a valuable contribution to Credicorp's portfolio of businesses.

Turning to the next slide. We're proud to have a premier disruptive financial franchise in Latin America underpinned by a well-defined strategy and clear goals. Our strategy is geared towards delivering the best experience in the most efficient way to remain competitive while investing in long-term sustainable growth. Since 2022, we have ramped up our investments in innovative and disruptive initiatives to improve our digital and analytical capabilities positioning us to become an omnichannel financial services company with a deep understanding of our customer needs.

We are now seeing tangible results in both our core businesses like BCP and our disruptive ones like Yape. These initiatives are delivering more digital customers. Digital clients and digital monetary transactions have increased 9 percentile points and 3 percentile points, respectively, year-over-year, with digital clients growing more than 21 percentile points in the last two years. We have greater customer engagement, increased primary banking relationships, and expanded deposits which provide us access to highly competitive funding.

At BCP, enhanced customer insights, increased client touchpoints, and strengthened digital analytical capabilities are delivering positive results. We can now offer our customers tailor-made products leading to increased engagement and higher satisfaction as reflected in the 11 percentile points improvement in our Consumer clients' NPS in the last two years. Our development of digital distribution ecosystem has boosted income while reducing unit costs. As a result of these initiatives, BCP's efficiency ratio has fallen 190 basis points in the last five years. Leveraging our digital capabilities, we are meeting banking needs anytime, anywhere, and creating a positive network effect driving sustainable growth.

Our aim is to develop world-class solutions and features that bring the unbanked into the financial system and attract and retain customers. Additionally, we are committed to continuing our investment in technology and digital transformation, providing it continues to drive growth, develop efficiencies, and optimizes our businesses in the long run. This strategic approach to investing ensures that we not only lead today, but also secure our success for tomorrow.

Finally, I'd like to give you a brief update on Yape. Alejandro will go into more detail shortly, and we'll take a deeper dive during our Credicorp Strategic Update event on September 26th. With over 15.9 million customers and income per active user of PEN4.1, up from PEN3.7 in Q1, I am proud to announce that in Q2, Yape reached and surpassed breakeven ahead of our expectations. Income growth accelerated and diversified with the continued addition of functionality in all three lines of business. Our investment in Yape is clearly paying off. According to [indiscernible - 10:45], Yape is now the top of mind brand in Peru across any industry.

Now, let me welcome Alejandro to his first results call as our CFO. He will discuss in more detail the macro environment and the operational and financial performance of our business units. Alejandro, go ahead.

Alejandro Perez-Reyes
Thank you, Gianfranco, and good morning, everyone. I am pleased to join you on my first call as CFO. I look forward to building on the solid foundation that has been set and is reflected today in our strong solvency, sound balance sheet, and stable profitability.

Moving on to quarterly results, as Gianfranco mentioned, we delivered solid 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.

Loans began trending upward to stand at 2.9% measured in quarter-end balances. Measured in our daily balances, loan growth stood at 0.2% driven primarily by an uptick in mortgage volumes at BCP and BCP Bolivia. This quarter, low-cost deposits continued to grow and now represent 54.5% of total deposits. Despite the reduction in Peru's policy rate, we delivered higher NIM on the back of amortization of government program loans, repricing of our retail loan book in soles to reflect the higher cost of risk, and the repricing of our dollar book.

NII grew 8.2% boosted by the aforementioned dynamics. Other core income, which is the sum of fee income and gains on FX operations, evolved strongly boosted by BCP and to a lesser extent by Credicorp

Capital. Fees at BCP benefited from monetization initiatives at Yape and solid transactional activity through credit and debit cards.

Lastly, insurance underwriting results rose 6.4% which reflected a reduction in expenses from the disability and survivorship product in the Life business.

The cost of risk rose to 3% driven by a weakening of payment capacities in SME-Pyme and a deterioration in payment performance and credit cards. The NPL ratio rose 33 basis points to 6% as delinquents increased, mainly through consumer, mortgage, and credit card loans at BCP. Consequently, NPL coverage stood at 95%. This quarter, we delivered an ROE of 16.2% on the back of solid expansion in margins, an uptick in transactional activity, and disciplined cost control.

Next slide, please. The Peruvian economy continues to recover. Economic activity increased 5% year-over-year in May. Estimates indicate that GDP expanded 4% year-over-year in the second quarter, the highest quarterly growth rate in almost three years. The agricultural, fishing, and primary manufacturing sectors accounted for approximately half of GDP growth bolstered by the results of the first fishing season, which was canceled in 2023.

Non-primary sectors grew close to 3% year-over-year. High commodity prices, particularly of copper and gold which make up 50% of our exports, drove terms of trade to a historical high in May. Although this has not yet translated into overall growth, it should act as a tailwind for the coming quarters and years, especially if a new mining investment cycle materializes with the execution of large projects, such as Tia Maria, Zafranal, Michiquillay, among others, which will require more than $6 billion in investment. Additionally, the inauguration of the Chancay Port which is slated for November, could also help boost the economy in the medium term.

Public investment has ramped up. In the first half of the year, it increased nearly 30% year-over-year in real terms, the highest print in 12 years, excluding the pandemic. As for public-private investment projects, ProInversión awarded $5.1 billion in the first six months of 2024, the highest amount granted in 10 years, out of an $8 billion goal for the entire year. According to the Ministry of Economy and Finance, this amount is expected to double in 2025.

The Central Bank's expectations indicators have recovered positioning the optimistic range in four of the last five surveys, a trend not seen since before the pandemic. Given the current economic environment and despite political challenges, we reaffirm our forecast that Peru's GDP will grow around 3%.

Next slide, please. Now Central Banks are ahead of the United States in the ECN cycle. Market participants expect Fed rate cuts in coming months but that [indiscernible - 15:34] regarding the pace. As such, elevated rates in dollars continue to challenge emerging markets. In Peru, headline inflation currently sits comfortably within the target range while core inflation stands at the upper limit of the range. However, in July, core inflation showed less persistence compared to previous months.

Consequently, yesterday, Peru's central bank cut its policy rate by 25 basis points to 5.5%, accumulating a total reduction of 225 basis points since September of 2023. The rate is expected to stand around 5% by the end of the year. In Colombia, inflation remains among the highest of the region at 6.9% year-over-year in July. Although the central bank has lowered its policy rate to 150 basis points since December, it remains high at 10.75%.

Finally, in Chile, the Central Bank has gradually reduced the pace of monetary easing and decided to pause in July as the bulk of the cuts have already occurred and upward inflation risks persist.

Next slide, please. BCP results remain strong boosted by a rebound in economic activity and an uptick in liquidity across the financial system. Analyzing key quarter-over-quarter dynamics, what we see is that total loans measured in our daily balances grew 1.3%, driven mainly by rebound in short-term wholesale loans. NII rose 1.9%, fueled by an uptick in interest income from loans via short-term financing in corporate banking and by a drop in interest expenses via increasing the share of low-cost deposits.

Loan loss provisions rose 29.4%. If we isolate the impact of the reversal of El Nino provisions that took place in the first quarter of 2024, provisions fell 3%. This decline was driven by a drop in provisions for consumer and mortgage loans which was partially offset by an increase in wholesale provisions.

Other income grew 11.2% driven mainly by fee income which was bolstered by growth in payments through Yape, an uptick in transactions and disbursement fees at BCP, and a rise in gains on FX transactions through growth in operations via digital channels.

On a year-over-year basis, NII grew 10.4% driven mainly by growth in interest income and loans. Growth in low-cost deposits triggered a decrease in interest expenses which also contributed to the uptick in NII.

Loan loss provisions rose 29.1% due to the deterioration in old vintages, particularly among loans originated in the first half of 2023, and mainly in SME-Pyme and credit cards. Other income rose 16.7%, impacted by growth in fee income via Yape and by an uptick in credit and debit card transactions.

Operating expenses increased 11.3% year-to-date. This was driven mainly by an increase in the headcount of specialized digital talent and an uptick in cloud service use. In this context, BCP's contribution to ROE stood at 23.7%. BCP Bolivia's positive results in the second quarter of this year reflect the dynamism within its lower-risk wholesale portfolio and growing transactional features.

Next slide, please. As anticipated, we are gradually increasing disclosure for Yape. Today, I would like to announce that revenue generation at Yape continues to accelerate and reached the break-even milestone in May. Ongoing growth in Yape's revenues, which rose 1.5 times versus the print in the second quarter of last year, reflects consistent advances in its three business lines.

Yape's payment business line, which is the main generator of income, grew through bill payments where transaction volume rose 4.6 times, and via the total payment volume which increased 111% compared to the second quarter of last year.

Within the Financial business line, in addition to the margin obtained from floating based on deposit balances, microloans became an income generator. In the second quarter of 2024, disbursements of single installment and multi-installment loans grew 3.2 times year-over-year. Despite strong growth, the Financial business line is in its early stages. We are developing differentiated risk management capabilities based on transactional data from daily use which should help us grow this line profitably. Finally, within the Marketplace business, gross merchant volume doubled year-over-year.

Next slide, please. Moving on to Mibanco. On a quarter-over-quarter basis, the microfinance industry continued to evolve in a complicated context. At Mibanco, total loans measured in average daily balances fell 3.2%, impacted by stricter origination policies and lower demand for loans in general. This drop reflects a contraction in higher-ticket loans which was partially offset by growth in small-ticket, higher-yield loans.

Despite the drop in loans, NII increased 1.9% mainly due to the drop in the cost of funding after the funding rate was repriced to take advantage of lower rates. In this context, NIM increased 19 basis points and stood at 13.6%.

If we isolate the impact of El Nino provision reverse of last quarter, provisions rose 19.8%. This evolution reflects a deterioration in the payment performance of old vintages, higher write-offs, and weakening in the payment capacity of vulnerable clients who continue to be impacted by adverse events in 2023.

From a year-over-year perspective, NII was up 2.6%. The uptick in interest income was boosted by income from the investment portfolio and by a drop in interest expenses after the funding base was repriced. Provisions increased 31.6% due to the same dynamics mentioned earlier. Operating expenses on a year-to-date basis remain under control, and efficiency stood at 52.1%.

Finally, ROE stood at 5.4% negatively impacted by a contraction in loans and high provision levels. This scenario was similar across the microfinance industry and reflects the challenges of a complex credit cycle.

Mibanco Colombia has been impacted by deteriorating economic conditions. Ongoing high inflation, very high funding rate, and a reduction in the interest rate ceiling, we have a profitable growth strategy where we have slowed portfolio growth by emphasizing risk control and efficiency. This strategy is leading us to perform better in relative terms and in line with our expectations.

Next slide, please. Profitability at Grupo Pacifico continues to be strong, with ROE starting at 26.4%. In quarter-over-quarter terms, net income dropped 10% negatively impacted by higher income tax expenses, other non-recurrent expenses, and lower gains from investment in associates via the corporate health insurance joint venture in particular.

Insurance underwriting results rose 19% primarily due to a base effect in the P&C business as reinsurance results normalized after a particularly unfavorable first quarter. The Life business also contributed positively as claims dropped, particularly for credit life, and disability and survivorship products.

From a year-over-year perspective, Grupo Pacifico's net income dropped 6%. This decline was primarily driven by growth in expenses for income tax and higher interest expenses associated with life insurance contracts. An improvement in insurance underwriting results, mainly via the Life business, partially offset these dynamics.

Next slide, please. Profitability in the Investment Management & Advisory business increased by 386 basis points quarter-over-quarter with ROE standing at 18.6%. On a quarter-over-quarter basis, net income registered a robust 27% increase. This positive dynamic was primarily attributable to an improvement in the performance of sales and trading in our Capital Markets business. The trading unit leveraged rate volatility to capitalize on opportunities while the sales unit saw a surge in transactional activity among our corporate clients in Colombia. In addition, we registered a significant contribution from our now discontinued Corporate Finance business unit related to a past deal. These favorable business dynamics were partially offset by a rise in income tax and expenses.

On a year-over-year basis, net income rose 12%, bolstered by the robust performance of our Capital Market business. Both our Wealth and Asset Management businesses also contributed to the uptick with AUMs climbing 15% and 20% in US dollars, respectively. These positive business dynamics were partially offset by a drop in treasury results and an uptick in income tax expenses.

Next slide, please. Now we will analyze Credicorp at a consolidated basis, starting with favorable balance sheet and pricing dynamics which drove a strong NII. On a quarter-over-quarter basis, on the asset side, loan balances resumed growth driven primarily by wholesale lending and to a lesser extent by retail loans.

These dynamics, coupled with favorable pricing, helped us maintain resilient yields on interest-earning assets.

On the liability side, our funding advantage in low-cost deposits was further boosted by inflows from pension fund withdrawals. In this context, the funding cost fell 12 basis points, outpacing the reduction in the yield on interest-earning assets, which fell 6 basis points.

On a year-over-year basis, asset growth was driven by long growth in the SME-Pyme, SME business and middle market segments of BCP. The investment portfolio balance also rose driven by our ongoing strategy to increase the duration of interest-earning assets. These dynamics led the yield on interest-earning assets to rise 25 basis points despite a drop in interest rates.

On the funding side, the aforementioned increase in low-cost deposits and a downward re-rate of our time deposit balance led the funding cost to contract. This evolution was partially offset by an increase in wholesale funding cost which was impacted by a BCP bond issuance earlier this year. These dynamics led the cost of funding to drop 5 basis points.

Next slide, please. Our risk-adjusted NIM remained resilient, supported by growth in NII, which alongside a rise in fee income and FX transactions, boosted core income. On a quarter-over-quarter basis, NIM increased 3 basis points to stand at 6.33% while risk-adjusted NIM stood at 4.4%. If we isolate the effect of a reversal in El Nino provisions last quarter, risk-adjusted NIM was flat.

Core income increased 3.9%, bolstered by NII, and strong growth in both fee level and FX transaction volumes where the main drivers were BCP and Credicorp capital. At BCP, growth in the fee level was fueled mainly by Yape and by core transactional services. Income from FX transactions grew 31.1% bolstered by transactions through digital channels and wholesale banking. At Credicorp Capital, core businesses drove a solid fee income result.

On a year-over-year basis, NIM rose 31 basis points while risk-adjusted NIM fell 31 basis points. Growth in other income was driven by BCP due to the same dynamics seen quarter-over-quarter.

Next slide, please. Let's look at the dynamics for asset quality. It is important to note that the diversity of BCP's loan portfolio provides a natural buffer in the context of a challenging credit cycle for the Peruvian financial system. Mibanco, on the other hand, is more exposed given that it is concentrated in micro-business clients who are more vulnerable.

Cost of risk at Credicorp stood at 3%. Underlying risk, which isolates the effects of reversals of El Nino provisions, was flat quarter-over-quarter. Let's go through underlying risk dynamics.

Provisions grew 2.4% quarter-over-quarter driven by Mibanco and partly offset by BCP. At Mibanco, growth in provisions was triggered by a deterioration in the payment performance of old vintages which was concentrated in high ticket loans, higher write-offs, and a weakening in the payment capacity of vulnerable clients. Within BCP, the contraction in provisions was driven by consumer which reported a drop in new refinancing and by mortgage where an improvement in payment capacity was observed as client leverage decreased. This evolution was partially offset by growth in provisions, in wholesale due to a base effect, and in credit cards due to further deterioration of payment performance among vulnerable clients.

On a year-over-year basis, provisions rose 35.9% mainly through BCP and Mibanco. Within BCP, provisions grew primarily through SME-Pyme and reflected weakening in the payment capacity of over-indexed clients and deterioration in the payment performance of old vintages. Additionally, provisions increased in credit cards via the same dynamics seen quarter-over-quarter. At Mibanco, the [indiscernible - 29:13] provisions were driven by the same dynamics as those seen quarter-over-quarter.

Next slide, please. Moving on to non-performing loans. On a quarter-over-quarter basis, growth in non-performing loans was led by Mibanco and partially offset by BCP. At Mibanco, NPL growth was driven by an uptick in delinquency in government program loans, which have high coverage levels, and by growth in delinquency in high-ticket loans among vulnerable clients affected by concurrent adverse events in 2023.

Within BCP, the drop in NPLs reflected an improvement within SME-Pyme where honoring processes for government loans are underway. This evolution was partially offset by an uptick in NPLs in credit cards and mortgages among vulnerable clients who are highly leveraged and lack stable employment. Deterioration in credit cards was concentrated in vintages originated in the first half of 2023. In this context, the NPL coverage ratio for total loans stood at 95% or 98.2% if we isolate the impact of government loans.

We have learned lessons from this cycle and have taken measures to recover asset quality faster. At Mibanco, a significant and growing number of clients have seen their income shrink which has led to higher indebtedness and weakened payment capacities. In this context, we have stepped up restrictions at the origination level as we strengthen monitoring, collections, and reprogramming evaluation processes. While Mibanco is performing better than its peers, we are still adjusting our risk management capabilities.

At BCP, deterioration is concentrated in the vulnerable segment within individual clients. Despite most restricted origination and offered temporary credit facilities, exposure and deterioration continues to persist in this segment. We are taking more aggressive action by selectively tightening origination guidelines in vulnerable individuals since May, and by offering medium-term rescheduling to both individuals and SME-Pyme clients in the second half of 2024.

Next slide, please. We will review the evolution of efficiency on an accumulated basis to isolate the impact of seasonal effects. Operating expenses grew 9.2% driven primarily by core businesses at BCP and disruptive initiatives at the Credicorp level. Core businesses at BCP fueled growth in expenses through an uptick in IT expenses related to move to attract talent to fill vacant positions and specialized digital talent, and increased use of the cloud as clients become more digital and transaction levels increase.

Expenses for disruptive initiatives at the critical level rose 29.2%. The most significant expenditures were in Yape, Tenpo, and Culqi, which together, accounted for 66% of this semester's disruptive expenses. Finally, an uptick in operating income and accelerating operating expenses led the efficiency ratio to drop 19 basis points to stand at 44.3% year-to-date in the first half of 2024.

Next slide, please. This quarter ROE stood at 16.2% driven by strong results in our Universal Banking, Insurance, and Investment Management & Advisory businesses. Meanwhile, the ROE for the semester was 17.2%. These results are a testament to our resilience and ability to adapt to challenging circumstances.

Now, I will move on to our updated guidance. Next slide, please. As previously stated, our GDP growth expectation remains unchanged at around 3%. Regarding loan growth, despite the recent pick up in wholesale lending, our still cautious approach to originations in our retail banking and microfinance segment has led us to revise our guidance on total loan growth measured in average daily balances to the 1% to 3% range.

Our NIM is expected to stand by the end of the year towards the upper end of our guidance, which is between 6% and 6.4%. We expect cost of risk to situate around the upper end of our guidance, which is between 2% and 2.5%. The credit cycle has proven to be longer and tougher than expected. Although we are confident on the effectiveness of the credit measures taken, stress is likely to linger in the individuals and microfinance segments for the better part of the year.

We achieved solid efficiency levels as we continue to invest in our disruptive initiatives. We are controlling growth in expenses at our core businesses to offset the aforementioned headwinds 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 the better than anticipated evolution of both our fee income and insurance underwriting results, we reaffirmed our ROE guidance for 2024 at around 17%.

With these comments, we can move to the Q&A session.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer 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 are 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.

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

Ernesto Gabilondo
Thank you. Hi, good morning, Gianfranco, Alejandro, Francesca, Cesar, and good morning to the rest of the team. Thanks for the opportunity to ask questions. My first question will be on Mibanco and the microfinance industry in Peru and also in Colombia. How do you see the credit appetite and the indebtedness in the sector? Are you detecting any positive sign offs on the evolution of the clients given that there will be an expected better outlook for the economy, or do you continue to see the same levels of deterioration, the asset quality? Any color on this would be very helpful.

Gianfranco Ferrari
Yes, good morning, Ernesto. As I mentioned in my opening remarks, we still don't feel comfortable where we stand in our portfolio, in terms of risk in the portfolio we have at Mibanco. As a matter of fact, we are tightening our credit policies over the last quarter, I would say, because we still don't see any improvement in that business. Having said that, if we have a vision going back, Mibanco—the microfinance industry in Peru is a very relevant industry. At the beginning and then Mibanco when we merged the two institutions, it has provided very sound and nice results, and going forward, we are still very positive on the fundamentals of the business, but I would say it's too soon to tell that we're seeing any improvements both in the market and within our risk capabilities.

Colombia is a different story. Columbia is a much smaller play. Having said that, and having taken into account that the Colombian environment overall for the banking system is much more complicated than the one in Peru, I would say that Mibanco in Colombia has today a clearer path in terms of what has been done over the last six months.

Ernesto Gabilondo
Perfect. Thank you very much. Just a second question. In your '24 guidance, I think in your second quarter press release, you were indicating to expect solid growth in other income and disciplined management of operating expenses. So, can you elaborate on your expectations for other income? Is this coming because of Yape? Is this showing in fees or in other income? Just wanted to understand a little bit more on that. Then, in terms of expenses, I don't know if you would be willing to postpone some not urgent projects to maintain op ex under control.

Gianfranco Ferrari
Alejandro?

Alejandro Perez-Reyes
Sure. Going first to the fees, we are expecting the strong fees that we're seeing to continue along the year. Part of the expenses we've done over the last few years actually to increase our transactional capabilities, and this is paying out in these fees that we're seeing right now. We expect it to continue. We're expecting both at the Yape level, also at the core business at BCP to increase, so we should see strong numbers along those lines going forward.

As for expenses, we're controlling the cost of income. We are always looking into opportunities to be as efficient as possible, but we are not currently considering cutting any particular project that we are in at the time. So, yes, as long as we control for the cost to income, we are okay currently with that. Still, as I said, we are always looking at expenses, and that's the reason why I said that our guidance is to be on the lower side of the cost to income guidance, and that is because we tend to choose some things, but there are smaller things, not necessarily the big projects that we're working on.

Ernesto Gabilondo
Excellent. Thank you very much, Alejandro and Gianfranco.

Gianfranco Ferrari
Thank you.

Operator
The next question comes from Renato Meloni with Autonomous Research. Please go ahead.

Renato Meloni
Hi, good morning everyone. Thank you for the opportunity to ask questions. Just to start, a follow-up here on Mibanco. During your initial remarks, you said that you were doing a better assessment of the situation in the upcoming quarters. So, I wonder if you could offer some more color on what this assessment is and maybe offer some order of magnitude in extra provisions that you might have to incur and if that could materially impact the guidance. Then, the second question here is just on what you think is the driver for the increase in low-cost deposits. Do you should expect that to increase during the rest of the year? Thank you.

Gianfranco Ferrari
Yes, I'll ask Cesar to take the first question, and I'll take the second.

Cesar Rios
Okay, thank you. I would like to remind something that Gianfranco has mentioned to us. One is the general context of the market has been very challenging, particularly for the micro segment. You can say that we are doing a very thorough analysis for our internal capabilities and performance, and I would like to lead a little bit more light about what we mean for our thorough assessment.

We are reviewing the entire process, checking for example, our monitoring capabilities, how granular they are, what we monitor. We are reviewing the performance and calibration of our models, how effectively we combined our on the field capabilities with the modeling central system that compounds the hybrid model that we are convinced are the right one, but how finely tuned these are, and we are also reviewing cultural aspects that has been probably affected during a long period of a tough market, affecting the behavior of the clients and probably even our internal end.

So, summarizing everything, we are reviewing every conceivable aspect of the credit process to be sure that even under very tough market circumstances, we are performing at the best possible level, and we are finding opportunities to improve all along the lines that I already mentioned, and the expectation is to have a clear picture in a quarter or so.

Gianfranco Ferrari
I'll complement Cesar's answer. That goes beyond risk management at Mibanco, and we've talked about it in previous calls. I would say Mibanco, and like most of the microfinance institutions in the traditional business has been 99% focused in lending, and the whole microfinance industry has a strategic weakness, but at the same opportunity in terms of gathering retail deposits, transactional deposits, and improving the fee income business. Those are two levers that obviously will take time, but strategically is something that we're working at Mibanco that won't help in the short-term for sure. The short-term is what Cesar just mentioned, but in the longer path we do see that Mibanco has an opportunity to actually start basically and improve those two sources of income.

Going to your second question, the answer is quite direct and easy, is we've been investing in transactional capabilities for, I would say I don't know, 15 years, and obviously that doesn't pay off when interest rates are low, but it pays in environments like the ones we've been living for the last 24 months, 18 months, whatever. We will continue to invest. So, a few years ago it was heavily investing in physical distribution capabilities. Today it's heavily investing in digital distribution capabilities. A clear example, and the most successful one so far has been Yape, but if you recall a few years ago, we started a strategy called War on Cash. That's exactly what's happening. We're not only improving in terms of market share, but the non-cash market has been growing steadily over the last few years.

Renato Meloni
Thank you. That's clear.

Operator
Yes, next question comes from Brian Flores with Citi. Please go ahead.

Brian Flores
Hi, team. Thank you very much for the opportunity to ask questions. I have a question on Yape. As you mentioned, you achieved break-even. I wanted to understand a bit, how do you envision this going forward? The 33% quarter-over-quarter expansion on revenues, do you think this is sustainable, something that you already have within your budget? I also wanted to ask and confirm is now that the investments have been mostly done on the technology side and the capability side, as you were mentioning, on the transaction side, if going forward this is purely, let's say, profit or only, let's say, the largest part of it from the revenue side will translate into profits directly on this one? Thank you.

Gianfranco Ferrari
Francesca.

Francesca Raffo
Yes, in addition to today's primary revenue streams for Yape, I've mentioned before, flows and payments and also beginning to the lending business, what I think is very strong for Yape in the future is that the monthly active users continue to grow at a fast pace, and also the level of transactions that they have is continually increasing. If you look at a year-to-year, quarter-to-quarter comparison at the transactional level was 25 transactions per customer, now it's 40 with a growth in customers as well. So, the current pace of growth, I don't see it slowing down on the revenue streams that we know, bill payments and floating, but what we are going to see is a difference in percentage in the relative growth rate of new businesses.

We mentioned lending. We're growing fast on lending in terms of not still creating a large balance but really incrementing the pace at which we lend for all Yape customers. We believe that 50% of the Yape base should be able to have lending products available, and also the new revenue streams in terms of foreign exchange remittances, which are highly fee-based business, are also growing, still small but also growing, and finally, the newer business models, which are marketplace. We are currently having a lot of promotions, a lot of transactions around Yape, which gives us an optimistic view in terms of creating a new business plan.

Gianfranco Ferrari
Yes, maybe just to complement Francesca's answer. We've talked about it before. Bear in mind that what happens with this [audio drops - 48:07] startups actually is that they have a J curve in terms of income and therefore profits. So, that's what's happening, building on what Francesca mentioned.

Just on your last comment, don't get me wrong. We're not going to cut investments in technology. If we see an opportunity, we will continue investing in developing new features for our clients, and that brings me to highlighting the meeting we're going to have on September 26th in which we are going to be deep diving in Yape and another tech initiative or disruptive initiatives, which by the way, I invite you all.

Brian Flores
Perfect. If I just make a quick follow-up on your comment on Francesca's, as you were mentioning you see a big opportunity in terms of lending via Yape. I also know from your presentation that you are going to be cautious on the consumer segment. So, how do we reconcile this, let's say, more timid appetite on consumer and credit cards with perhaps a better optionality here with Yape to originate lending via the app? Thank you.

Gianfranco Ferrari
Yes, you mentioned, the keyword optionality. The Peruvian market, the labor market actually is, I don't know, 75% informal market. So, in the past, the whole financial system had two barriers for successfully lending to those segments. One is distribution costs, and the other one is data. Obviously, by dispersing through the app, the distribution cost is marginally zero, and the models we are building, the risk models I mean, we're building through the data we've gathered over the last few years in Yape has helped us in developing these new models, and so far, the performance of those, as Francesca mentioned, basically short-term loans have been very good. So, we'll go step-by-step, but we see a very large opportunity there.

Brian Flores
Super clear. Thank you.

Operator
The next question comes from Tito Labarta with Goldman Sachs. Please go ahead.

Tito Labarta
Hi, good morning. Thank you for the call and taking my question. First question just on the revision in the loan growth quite a little bit lower despite you still held 3% GDP growth. Is this primarily related to Mibanco? I mean, what do you need to see here for loan growth to really improve from here? Maybe we're starting there.

Alejandro Perez-Reyes
Sure. So, the revision is a reflection, not only of what we're expecting, but what has already happened during the year. The revision is on average daily basis and the first half of the year we've only grown in 0.2% in the average daily balances. So, that makes it harder to expect the 3% to 5% growth that we had before. So, we are expecting growth to pick up in the second half of the year. It's just that it's going to be in specific areas, not necessarily as fast as we were expecting, but as the economy continues to grow, we're seeing rates coming down. We see there's no inflation, there's investment on the private sector, and a lot of other leading indicators that show that the growth is becoming more widespread because at the beginning it was very much in the primary sector, so you didn't feel it necessarily on the loan book, but now it's becoming more widespread and we see a lot of different metrics that show that we included in the presentation, the transactions with our credit and debit cards, that is a leading indicator that is moving stronger and in different industries also, energy consumption is growing at a more robust pace.

So, we see a lot of different indicators that show us that the economy should continue to improve and be more widespread, and that will have an impact on the growth of the portfolio for the second half of the year. That moves us to the 1% to 3% on average daily balances. Again, we are going to be selective in specific risks because the credit cycle is still not over.

Tito Labarta
Okay. Thanks for that, and I guess just on Mibanco again, to see the growth pick up there, I mean, why is it so weak if the economy seems to be improving? Is this just because of the informality of those types of clients that are not necessarily captured in the formal macro figures? Just to understand why the continued weakness there. Like, what would it take for that to really begin to improve?

Gianfranco Ferrari
Yes, Tito, maybe a more structural answer and then a more short-term answer. The microfinance industry is more volatile within our portfolio. The business has the highest volatility, and bear in mind that the microfinance sector has been hit since COVID like constantly in Peru. I mean, so first COVID, then the terrible government we had, then the social unrest. So, it hit like for, I don't know, a period of three years or four years, something like that this on one hand. On the other hand, this GDP growth, it takes time to trickle down to those segments. So, I would say it's a matter of time, but we do not have clarity as of today and when that time is coming to benefit that portfolio.

Alejandro Perez-Reyes
Maybe just to complement the growth in the first half of the year has been very tied to primary sectors and hasn't come necessarily with a big increase in hiring in companies. Now the good news is that today, when you look at the Central Bank Expectation Survey, all of the indices are on the positive side including the hiring expected for the next quarter. So, we are seeing more positive news, but still it has to go from the primary sector to the full economy.

Tito Labarta
Okay. That makes sense. That's very helpful, and maybe just follow up on, I guess, on the cost of risk there. I mean, you said that the higher end of the range. I mean, this quarter was a bit higher, first quarter was a bit lower, but you had some reversals there, and you're sort of well above like historical levels. So, just to put that in the context, I mean, do you think that remains a bit elevated maybe because of Mibanco, like thinking into 2025 a little bit, or can that improve going forward sort of significantly maybe back to historical levels eventually?

Alejandro Perez-Reyes
Yes, the first thing I'll say is we are expecting to be in range on the upper side of the range. So, that certainly means that we are expecting some improvement during this year. Still not necessarily this year going back to pre all of these conditions that Gianfranco mentioned, to levels pre-recession and COVID, etc. So, this year I think it's more of a transition year where we'll see a decrease, but slow decrease along the year. That probably will help us get into the range but very much on the upper side, and hopefully 2025 is a year where it normalizes.

Gianfranco Ferrari
Yes, maybe complementing that. Regarding cost of risk, there are like two forces going in opposite directions. One is that if we stand still with the current portfolio, cost of risk should be lower going forward, but on the other hand, the retail portfolio overall is growing at a faster pace than the wholesale portfolio, and that portfolio has a higher cost of risk. Actually, what we manage is risk-adjusted NIM. Having said that, we expect overall the risk adjusted NIM to improve going forward.

Tito Labarta
Okay. That's helpful. Thanks a lot, Gianfranco and Alejandro.

Operator
Yes, next question comes from Eric Ito with Bradesco BBI. Please go ahead. Eric, your line is live. Our next question comes from Yuri Fernandes with JPMorgan. Please go ahead.

Yuri Fernandes
Thank you, and good morning, everyone. I have a follow-up on Yape on the break-even and the long growth. Like usually in Peru, you're provisioning expected losses, and we see a good growth on disbursement here. If you can share, maybe the balance would help us, but I guess if you give me the number of Yape loans, like 700,000 disbursements. My question here on the break-even is the following. How are you provisioning for this? Are you building provisions ahead? Like basically this is penalizing your expenses, and even on expenses, is the total expenses line for Yape that you have in the table reflecting provisions? So, trying to understand the break-even, basically, if this is the break-even considering the credit and the cost of credit, like the potential expected losses or not yet, like you are not including provisions in those lines? Thank you very much, guys.

Gianfranco Ferrari
Yuri, what you saw in the presentation is overall cost as if Yape were a business unit by itself. So, it has all of the costs, including provisioning. Yape loans, the bulk of the portfolio of Yape is very short-term loans. So, we provision whatever is needed. But actually, it's the NPLs, the ones that generate provisions, delinquencies directly related to provisioning because since the loans are very, very short tender, the typical way of provisioning doesn't apply to the Yape portfolio. Sorry, go ahead, Cesar.

Cesar Rios
The actual performance of the portfolio is much clearer and faster revealed in this kind of portfolio because you have very short maturity. So, in a very short period of time, you have a perfect profile of the payment expectation, and you can provision based on that.

Yuri Fernandes
Thank you, guys, and just a follow-up on these loans. Why are you more confident with Yape loans than Mibanco? I know it's different, the nature of the business, but given with all the questions, everything we're seeing on Mibanco, like why are you confident that you can grow on Yape loans? What is different here?

Gianfranco Ferrari
A few reasons, Yuri, and we've discussed it about this issue before. Mibanco goes to micro businesses, Yape goes to consumer lending. You can argue, and I may agree, that at those segments is the same pocket or the pocket gets mixed, but one reason is that one. The other reason is the model, Yape is completely built on risk models and digital capabilities. The acquisition cost is much, much lower than the acquisition cost at Mibanco, and maybe the last one, which is the most important one, is tenure. Mibanco's duration is around 13 months. The Mibanco portfolio is around 13 months. Yape's portfolio is around 1 month. So, it's very different. Go ahead, Francesca.

Francesca Raffo
To add, I think to the previous question and to this one, one of the things we're also trying in Yape is innovation around disbursement channel, collection channel, and product innovation. It's very different to give a working loan capital in a very small 20-day or 45-day loan. So, there's space for all of these products. So, what we need to find is the niches around that.

Yuri Fernandes
Super clear, everybody, and congrats on Yape. It is great. Like, when I see the [indiscernible - 62:03] and your cost of service, it's pretty nice. So, just trying to check like the potential questions here. Thank you very much.

Operator
The next question comes from Eric Ito with Bradesco BBI. Please go ahead.

Eric Ito
A guys. Good morning. Can you hear me?

Gianfranco Ferrari
Yes. Perfectly.

Eric Ito
Thanks for taking my question here. I have one question regarding loan growth. You mentioned that economy should continue to improve. We have rates coming down, low inflation next year. So, I just want to get a bit of color for 2025. If you can give us some numbers on loan growth expectations for next year and maybe give us a breakdown for microfinance between the segments, retail, and wholesale? Thank you.

Gianfranco Ferrari
Eric, just to be clear, we don't provide guidance on 2025 until, I believe, it's February of 2025. If we go back to 2024, which is what we can discuss, basically Peru's main driver for growth over the last, I don't know, two decades has been private investment. Therefore, loan growth has been highly correlated to

private investment, and even though, as we mentioned before, we expect to grow 3% this year, we still don't see relevant private investment or private projects for investment.

Having said that, and again, I want to stress out that we don't provide guidance for 2025, what we expect is that next year, maybe by the end of this year, some private investment should pick up because there's activity in the new brownfield and greenfield projects in the mining sector. Alejandro mentioned the Port of Chancay, which has already been financed, but there's a huge collateral positive impact. The new airport is going to be inaugurated by year end and so on.

So, we are positive on portfolio growth, but it's going to be for next year, and maybe the last quarter of this year, but mostly next year.

Alejandro Perez-Reyes
I'll just add that even though private is a driver, it should be going forward, there's this project, there's also a big push from government for these private-public concessions, and one important one is this ferry beltway that has been assigned for $3.4 billion which is also something that could generate some dynamism. So, we are seeing more things going on. Still, the private investment is not necessarily online as of now.

Eric Ito
Okay. Thank you. Just a follow-up, if I may. What's the level of a sustainable ROE you guys think is the one for the bank?

Gianfranco Ferrari
Yes. What we've mentioned, what we've been mentioning for the last three of four years is 18%.

Eric Ito
Okay. Thank you.

Operator
The next question comes from Andres Soto with Santander. Please go ahead.

Andres Soto
Thanks for the presentation. My first question is regarding your longer outlook vis-a-vis with the level and the potential for extraordinary dividends. When I look at your capitalization, it is at 12% for BCP and close to 17% for Mibanco, both significantly higher than what you have said that's target, and I expect this to continue to improve considering that the profitability will continue to improve, and loan growth is not going to pick up dramatically. So, are you considering the possibility of distributing additional dividends in the second half of the year as you used to do before COVID?

Gianfranco Ferrari
Yes—

Andres Soto
My second—

Gianfranco Ferrari
No, go ahead.

Andres Soto
No, Gianfranco, if you want to elaborate, go ahead, but I want to change topics.

Gianfranco Ferrari
Are we considering it? Yes, we are considering it, yes. We haven't decided anything, but yes, we are considering it. Makes total sense.

Andres Soto
Perfect, thank you. Now, my second question is regarding actually to Yape loans. The 700,000 disbursements caught my attention. I would like to understand, is this still only single installment loans or are you already doing multi-installment loans? If you can give us any color on what is the breakdown between both of them and any feedback that you have regarding the preliminary potential of this. Francesca just mentioned 50% of Yape users should be eligible to get loans. So, I would like to understand also out of that, how many are already clients at BCP or any other credit card subsidiary and which will be sort of incremental growth for their franchise.

Gianfranco Ferrari
Yes. Francesca?

Francesca Raffo
Yes. So, currently we disbursed around a little over 300,000 loans, short-term loans per month in Yape. Around 90% of that is still a month, between 15 days and 29 days in terms of term, and we have for second-time and third-time customers, longer-term, longer-term meaning two months and three months. So, it's still very early on, and what we are actually looking at is amount and repayment type. So, it is very early on for that.

What we are seeing is that the customer base is very repetitive. So, there is a lot of customers that are coming back for those short-term loans, and we want to still understand how we can penetrate the larger base of the 12 million customers for Yape. So, the 50% that I mentioned is our goal, our north star goal, saying that what we want to do is actually be able to lend to half of Yape's customer base because if you've seen Peru's numbers, loan growth in terms of number of people has been very stagnant in the past ten years, it hasn't been a real growth path.

Andres Soto
Congratulations again on the results.

Operator
The next question comes from Sergey Dubi with HL. Please go ahead.

Sergey Dubi
Yes, I had a question regarding the direction of your net interest margin in the context of your asset yields and funding costs. I see that both asset yields and—basically asset yield expended. Your funding cost has also rose, but slower than asset yield. So, your NIM has expanded as well, but could you put it in context also of the interest rate trajectory because it looks like, as you showed in the presentation, the Central Bank has been cutting rates since June of '23. So, how are you able to achieve expansion in asset yields for so long after the rate cuts have begun, number one, and number two, how sustainable is that NIM expansion given that you expect BCRP to cut rates to 5% by the end of the year? That's the first question.

Alejandro Perez-Reyes
Sure. So far we've been able to reprice loans due to the current risk situation, and at the same time, low-cost funding has been improving in an important way, and also we've had returns from investments, and all of that has contributed to our numbers and to the fact that we're expecting to be on the upper side of the range.

I want to make a general comment, and then I'll comment specifically. If we were to do nothing, the sensitivity of our portfolio to changes in rates with a lot of assumptions, basically a high basis point shift, both in dollars and in soles, would be around 14 basis points in a year and around 20 basis points in a three-year period. We measured it in a three-year period because of the movement of the whole portfolio and the durations. So, that is in a case where you basically maintain the portfolio as it is during these change in rates. Of course, that's not ideal. We're moving more onto the retail side, and that should change the mix and allow us to maintain a resilient NIM in the foreseeable future.

Sergey Dubi
Okay. Just to clarify because I want to make sure I understand this very clearly. So, are you saying that some portion of your loan book is not directly tied to reference rate and you price it more in a kind of like risk fashion? I would suppose that would be more SME-Pyme and more high risk segments. Is that right? So, these—

Alejandro Perez-Reyes
Yes, that's what happened during the last year because of the change in risk conditions in the market. So, all of our book is of course related to base rate movements, but given the credit cycle that we've been through, we've been able to reprice to the upside some of our loans because of higher risk in the cycle. When that risk comes down over time, that should also normalize more.

Sergey Dubi
Okay. That's fine. That's clear, and then the second part of my question was, given the ongoing decline in reference rates, and then if you expect these risks to come down, so that obviously suggests that you're going to reprice your loans down, which means that your asset yields will come down probably somewhat substantially. So, would you still be able to reprice your deposits or overall funding down more so that you can keep your NIM at least flat, or do you think there is some downside to NIM and later in part of this year maybe or next year?

Alejandro Perez-Reyes
If we didn't change the composition of the portfolio over time, yes, there should be some pressure backwards on NIM because we already have a very high market share in low-cost deposits. We have been repricing those. Even though there might still be some repricing to be done where rates come down in time deposits, etc., the effects aren't as big. Having said that, and we'll do that, of course, over time, but on the other hand, we are shifting the mix of the portfolio and moving into more retail where you have a higher margin. So, that mix is what makes us think that we'll be able to sustain these levels for longer.

Sergey Dubi
So, your sensitivity to, let's say, I don't know what like, 25 basis points and rate moves is 14 basis in NIM. Is that correct?

Alejandro Perez-Reyes
The calculation I gave is 100 basis points move, parallel move, both in soles and dollars. That has an impact in three years of around 20 basis points, in one year around 14 basis points. That is, with the portfolio without having any changes. So, that basically taking the balance sheet as it is and going through the cycle of rates coming down. When we move the portfolio and we go a little bit more into retail, that's when we compensate a part of that.

Sergey Dubi
So, that's a perfect segue into my next question. You've been saying this line for like a long time that you guys are moving into retail and it should bring higher NIM, which is true, but also, it's very apparent now, it's bringing higher cost of risk as well, and it's actually, what it looks like to me, a lot of people here focused on Mibanco, but really your SME-Pyme segment within Credicorp, which I think contributes most to your credit cost increase just by sheer size of the portfolio. So, my question there is, first of all, like what exactly changed between Q1 and Q2 because I was under the impression that your credit costs were most vulnerable last year and expectation was El Nino, then El Nino happened. It wasn't as bad. You reversed some provisions, so it looked like things were actually improving, but then now, it's deteriorating again. So, what has changed between Q1 and Q2 that you saw this deterioration?

Alejandro Perez-Reyes
Well, nothing has changed in the sense that the trend has been the same. What has been a bit of a surprise that it was stronger than we expected beforehand. So, the point is we knew we were in a bad credit cycle, we were expecting it to start turning a little bit earlier in the year, and it's taken longer, but it's not necessarily changed in any way. Having said that, this is a cycle that is going on right now and it will pass, and our strategy to move into retail is a more structural strategy that is not necessarily linked to the specific moment. So, we're not going to rush into something today when we're still expecting the risk to be better. Strategically, we are moving more into the retail segment.

Sergey Dubi
Okay. So that's the—

Gianfranco Ferrari
Sergey, there's a lot of people in the call. What we can arrange with our IR team is a specific conversation, and we can go into as much detail you want, if you're okay.

Sergey Dubi
Alright. That's fine. Thanks.

Gianfranco Ferrari
Great. Thank you.

Operator
The next question comes from Carlos Gomez with HSBC. Please go ahead.

Carlos Gomez
Hello. Thank you. First, thank you for the disclosure on the NIM sensitivity. That's very clear and we appreciate that. I had two different questions. One is about your international operations. Given that Peru is taking time to take off, how do you see your operations in Bolivia, in Colombia, and in Chile? How much are you willing to invest in your fintech in Chile?

Second, regarding the investor remuneration, you mentioned the possibility of an extraordinary dividend. I noticed that another company associated with the group has been very active in buybacks. Is that something that Credicorp will consider at some point, or will you stay with your policy of always sticking to dividends? Thank you.

Gianfranco Ferrari
Good morning, Carlos. Let me start with the second one. As of today, we are not evaluating any buyback opportunities. We mentioned before, the plan is to pay the relevant important dividend. The ordinary dividend we pay in May, June this year we raised that by 40%, I believe, and if there's—portfolio growth

is not there or whatever, we'll pay an extraordinary dividend, I would say the last quarter of the year. Those are the plans. There's nothing formal yet. We're evaluating that.

Regarding your first question, let me go customers-by-customers and business-by-business. Bolivia, the bank is performing quite well. Unfortunately, I always say we have the right franchise in the wrong country. The country macro environment is very complicated. What we've been doing over the last, I would say, 18 months is de-risking our portfolio, and even though it's not a very dollarized portfolio, we've been de-dollarizing our portfolio, too.

The nice thing we've been doing in Bolivia, and we will talk about it more in September, is that we launched Yape in Bolivia, I would say a year ago or 18 months ago, not because Bolivia was a large market or an interesting market by itself, but because we wanted to confirm or not our thesis that Yape was exportable and leveraging on a non-leading bank in the country, and so far, we've been successful with Yape in Bolivia. As I mentioned, we'll be talking more about it on September 26th. That's Bolivia. Obviously, we don't plan to invest more in Bolivia.

Regarding Colombia, the whole country is going through a lot of structural changes. The financial sector, I'm sure some of you are investors in some of the large banks in Colombia. The financial sector overall is struggling. The microfinance business, we've talked about it. The Credicorp Capital in Colombia is performing quite well. We shared the overall results of Credicorp Capital. We feel quite comfortable with the ROE we have, the plan we deployed last year, we're actually beyond the KPIs we set with a target for 2025. So, we're quite happy. I'm talking about Colombia and Chile at the same time, when I'm talking about Credicorp Capital.

Lastly, regarding Chile and Tenpo, actually I've been this week in Chile, Tenpo is right on track with the KPI's we said when we started. We've been assessing development of Tenpo quarter-by-quarter. So, the performance of the business is satisfactory today. We already asked for a full banking license. We expect that license to be awarded—sorry, the first stage of that license to be awarded quite soon. So, the plans are there. Therefore, we plan to keep investing in Tenpo until it reaches break-even. We will also be talking about it on September 26th.

Carlos Gomez
Presumably you don't have a date for break-even right now?

Gianfranco Ferrari
We do have a date in our plan. I'm not sure we're going to share it with you today.

Carlos Gomez
Okay. Thank you so much.

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.

CONCLUSION

Gianfranco Ferrari
Thank you, and thank you, all, for your questions. Our second quarter results showcase a solid ROE of 16.2% driven by Universal Banking, Insurance and Investment Management & Advisory supported by improved loan growth and high transactional activity. Significant strides in strategic initiatives resulted in a robust first half of the year positioning us to achieve our 2024 ROE guidance. Our financial performance

was sound with resumed loan growth, a resilient NIM, and a solid balance sheet. With these dynamics, more are offsetting the still high provisions. As the economy strengthens, we are well-positioned to capitalize on new opportunities and meet our clients' evolving needs.

In Peru, despite current systemic issues in the microfinance sector, we remain confident in our hybrid business models and are conducting a thorough review of risk capabilities to realign this business, and we still do not feel comfortable with risk assessment of this portfolio.

While the quarter's ROE fell short, this business segment has created value for Credicorp over the longer term, and we anticipate a gradual recovery in profitability. Our focus remains on supporting the essential population segment we serve through Mibanco.

The economic context in Peru is favorable with a stable outlook for 2025 driven by strong underlying fundamentals including controlled inflation levels, increased public investment, and robust commodity prices. In this context, we 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 strong non-interest income and optimized efficiency as disruptive initiatives mature.

Our disruptive financial franchise is thriving, driven by a clear strategy and goals. Our commitment to digital advancement and customer centric growth is evident in the tangible results across both core and disruptive businesses. Investments in innovation have led to increased digital customers, sales, and transactions with reductions in unitary costs and notable improvements in customer engagement and satisfaction.

Lastly, Yape has surpassed breakeven ahead of schedule with significant income growth and diversification. We look forward to providing further details on this exciting business and our innovation portfolio at the Credicorp Strategic Update event on September 26th at 2:00 p.m. eastern time.

Thank you, all, for participating in today's call.

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