Andean Banks

Year Ahead '24: A turnaround in earnings

Price Objective Change

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Equity
Latin America
Banks

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Earnings turnaround expected

We expect a turnaround in 2024 earnings for the region, despite overall expected softer NII and loan growth. Peruvian banks' earnings should benefit by normalizing provisions related to "El Niño", from which a strong impact is no longer expected. Meanwhile, Chilean banks' earnings should decelerate at a slower pace, although we view BSAC as one of the best earnings growth stories in the region, benefiting under lower rates.

Topic 1. Upside risks to loan growth in 2H24

We continue to see modest loan growth of 5-6% in the region. Nonetheless, we see upside risks to the consumer lending activity of the Chilean banks after leaving behind the pension withdrawals and support programs. Meanwhile, Peruvian banks' lending activity should accelerate, but after leaving behind the impact of El Niño.

Topic 2. BSAC, the key beneficiary of lower rates

The region should experience a softer pace of NII growth when compared to loan growth. Chilean banks' NIMs should continue to be affected because of lower inflation levels, while Peruvian banks are unlikely to accelerate their credit appetite before understanding the impact from El Niño. We only see BSAC significantly expanding NII growth above loan growth as NIMs should benefit under lower rates.

Topic 3. A strong El Niño no longer the base case scenario

Peruvian bank earnings appear poised to bounce back in 2024 after normalizing given provisions charges related to El Niño. We no longer see a strong impact from "El Niño" as the base case scenario. Nonetheless, we continue to assume BAP and IFS provision 12% and 6% of located impacted areas in 4Q23 and in 1Q24.

Topic 4. BCH likely to pay the highest diviend yield

We note Andean banks' CET1 ratios of ~11% are well below those from Mexican and Brazil banks (at 15% & 13%, respectively). Nonetheless, Banco de Chile is the only bank in the region with a CET1 ratio of 13.5% and with room to pay a dividend pay-out ratio of 80%, which would be equivalent to a dividend yield of 9.6%

Top picks: Credicorp and Santander Chile

We continue to prefer Mexican and Brazil banks in the region supported by stronger fundamentals. Nonetheless, believe there are two attractive large-cap banks in the Andean region. 1) Credicorp's earnings should bounce back from a normalizing in provisions related to El Niño, and 2) Santander Chile's earnings are likely to be driven by NIM expansion benefiting under lower rates.

Small-cap pick: IFS attractive

We believe Andean small-cap bank IFS has room for a re-rating considering double-digit ROAE, and attractive valuation (trading below book value).

Exhibit 1: Andean banks
Rating and PO changes

	Rating	PO	
		Old	New
BAP	Buy	155	179
IFS	Buy	25	29
BSAN	Buy	45	47
BSAC	Buy	20	21
Chile	Underperform	93	100
BCH	Underperform	20	22

Source: BofA Global Research

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BCH – Banco de Chile

BSAC – Santander Chile

CIB: Bancolombia

IFS: Intercorp Financial Services

NII: Net Interest Income

NI: Net Income

ROAE: Average Return on Equity

CET1: Common Equity Tier 1

Reactiva: Peru's government support program

ALCO: Asset Liability Committte

Timestamp: 25 January 2024 06:00AM EST

Attractive opportunities

Top picks: Credicorp and Santander Chile

We continue to prefer Mexican and Brazil banks in the region, supported by stronger fundamentals. Nonetheless, we view Credicorp and Santander Chile as two attractive large-cap banks in the Andean region. 1) Credicorp's earnings should bounce back from a normalizing in provisions related to El Niño, and 2) Santander Chile's earnings are likely to be driven by NIM expansion benefiting under lower rates.

- **BAP (Peruvian bank)** offers double-digit earnings growth and improved profitabilty in 2024 after leaving behind the impact of El Niño, while digital investments are creating new verticals & hybrid models to remain as the dominant name in the country. Meanwhile the stock continues to trade at an attractive valuation (1.3x '24E P/BV), despite a sustainable ROE of 18%.
- On **BSAC (Chilean bank)** we believe the worst is behind and earnings have started to inflect, NIMs should start to benefit from lower rates, and BSAC is one of the few LatAm bank stories with strong earnings momentum in 2024- 2025 (c.36% growth). Finally, from a risk-reward perspective, we see BSAC's P/BV at 1.7x (vs. 1.5x currently)

Small cap pick: IFS attractive

We see Andean small-cap bank IFS as having room for a re-rating considering double-digit ROAs, and attractive valuation (trading below book value).

- On **IFS (Peruvian bank),** we see earnings significantly recovering in 2024 after leaving behind the impact from El Niño and by improved wealth management results.
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Exhibit 2: Andean banks – Expected Net Income growth, ROAEs, CET1, dividend yield and total upside potential
Small-cap banks in the region to offer the highest upside potential

Bank	Rating	23 NI growth	24 NI growth	25 NI growth	26 NI growth	23 ROE	24 ROE	25 ROE	26 ROE	Sust. ROE	24E P/E	24E P/BV	3Q23 CET1	Upside Potential	Dividend Yield	Total upside potential
IFS	Buy	-40%	73%	26%	15%	9%	15%	17%	17%	17%	6.3x	0.9x	11.2%	29%	3.1%	32%
Credicorp	Buy	2%	13%	19%	19%	16%	16%	17%	18%	18%	8.2x	1.3x	13.1%	20%	4.2%	25%
Santander Chile	Buy	-39%	56%	24%	12%	12%	17%	19%	19%	19%	10.2x	1.6x	10.7%	13%	3.8%	17%
Banco de Chile	Underperform	-14%	-14%	-18%	11%	24%	18%	18%	19%	19%	10.2x	1.8x	13.5%	-1%	9.6%	9%

Source: Bloomberg as of January 24 and BofA Global Research estimates

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1. Upside risks to loan growth in 2H24

We continue to see modest loan growth of 5-6% in the region. Nonetheless, we see upside risks to the consumer lending activity of the Chilean banks after leaving behind the pension withdrawals and support programs. Meanwhile, Peruvian banks' lending activity should accelerate after leaving behind the impact of El Niño.

Chilean banks' political noise has significantly reduced, while economic outlook is improving. We expect loan growth to be supported by GDP growth of 2.2% in '24 (vs. 0.1% in '23) and lower rates of 5.25% (vs. 8.5% in '23). We expect consumer lending to start picking-up after leaving behind the excess liquidity generated by government supports and pension withdrawals, better GDP growth and lower rates.

We expect **Chilean banks' loan growth** to keep 6%-digit growth in '24 (vs. 5% in 2023), although with upside risks for the consumer lending activity.

Peruvian banks' loan growth should accelerate after leaving behind the potential impact of El Niño. After leaving behind the impact from El Niño and the low business confidence observed in 2023, loan growth should gradually recover, backed by i) the government's stimulus plan, ii) interest rate cuts, iii) higher real wages on lower inflation levels, iv) the rebound of agriculture and fishing (shocked by the coastal El Niño in 2023), and v) the spillover of new infrastructure (second line of metro/subway, Chancay port, and expansion of Lima's airport).

Peruvian banks' structural loan growth should accelerate to 5% in '24 from 3% in '23, supported by better economic prospects.

Exhibit 3: LatAm Economic forecasts

Overall, LatAm countries to post GDP growth above 2.0% in 2024

	GDP growth (%)			CPI (%)			Policy Rate (%)			FX		
	23E	24E	25E	23E	24E	25E	23E	24E	25E	23E	24E	25E
Peru	(-0.5)	2.6	3.0	3.2	2.6	2.5	6.75	4.00	4.00	3.78	3.76	3.80
Chile	0.1	2.2	2.0	3.9	3.3	3.1	8.25	5.25	4.75	879	900	925
Colombia	1.2	1.9	2.9	9.3	5.8	3.5	13.0	9.5	6.0	3,855	4,100	4,250
Brazil	3.0	2.2	2.5	4.8	3.7	3.5	11.75	9.50	9.50	4.95	4.75	5.00
Mexico	3.4	2.0	1.0	4.7	4.7	4.4	11.25	9.25	7.50	17.40	18.10	19.50
Argentina	(1.2)	(3.0)	3.5	207.6	170.8	107.8	133.00	83.00	55.00	808	2,200	4,500

Source: BofA Global Research estimates

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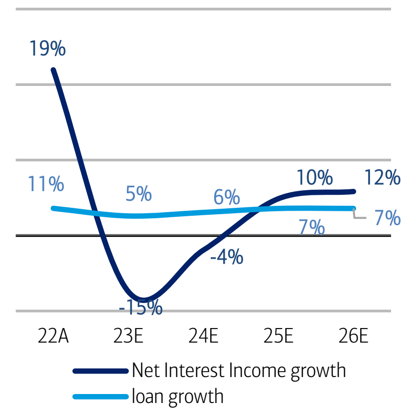
2. BSAC, the key beneficiary of lower rates

The region should experience a softer pace NII growth when compared to loan growth. Chilean banks' NIMs should continue to be affected because of lower inflation levels, while Peruvian banks are unlikely to accelerate their credit appetite before understanding the impact from El Niño. We only see BSAC significantly expanding NII growth above loan growth as NIMs should benefit under lower rates.

Exhibit 4: BCH: NII vs. loan

NII to contract in '24 from lower inflation levels



Source: Company and BofA Global Research estimates

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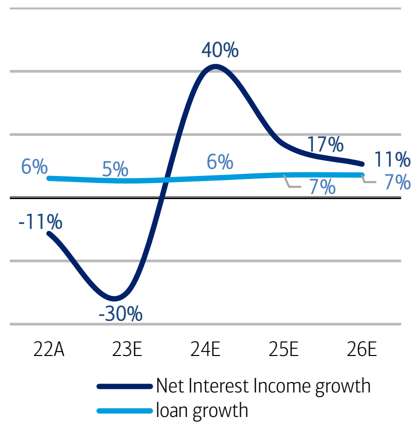
Exhibit 5: BSAC: NII vs. loan growth

NII growth and NIM to expand on lower interest rates, despite lower inflation levels



Source: Company and BofA Global Research estimates

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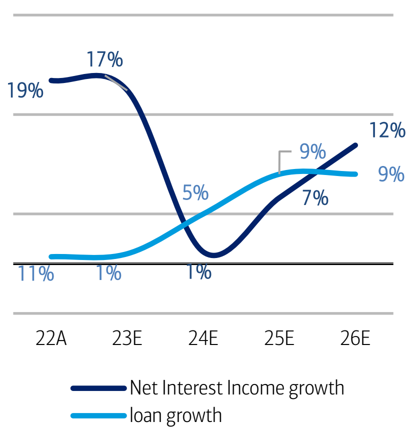
Exhibit 6: BAP: NII vs. loan growth

NII below loan growth on lower US rates



Source: Company and BofA Global Research estimates

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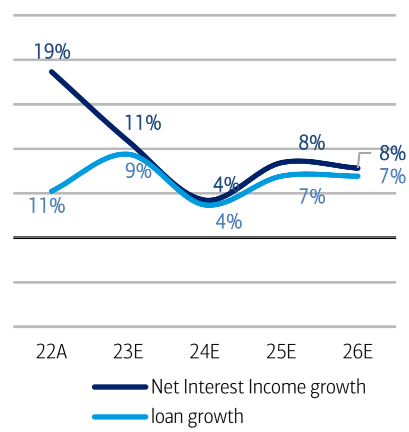
Exhibit 7: IFS: NII vs. loan growth

NII in-line with loan growth given a more neutral impact on rates



Source: Company and BofA Global Research estimates

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Chilean banks should face NIM pressure from lower inflation levels, given that 30% of their loan book are mortgage loans linked to inflation. Inflation in Chile should continue to trend down (to 3.3% in '24) which should translate into NIM pressure across the banks. Overall, we expect Chilean banks to experience NIM pressure of 40bp in 2024. Furthermore, we see BSAC as the exception, as NIM should benefit under lower rates.

BSAC's NIM. BSAC's sensitivity on inflation implies: +20bp on NIMs for every +100bp on inflation (and vice-versa) and -30bp on NIMs for every +100bp in rates in 12 months (and vice-versa). Furthermore, we expect BSAC to experience NIM expansion of 70bp in '24 be leaving behind the impact of a derivative hedge negatively affected under high rates. Importantly, we see NIMs to benefit by 30bp in 1H24, while benefiting only 15-20bp in 2H24, given the payments to the credit line of USD6.4-6.6bn to the Central bank on April and July 2024 (55% and 45%, respectively).

BCH's NIM. BCH's sensitivity on inflation implies: +20bp on NIMs, or ChP80bn for every +100bp on inflation (and vice-versa) and -10bp on NIMs for every -100bp in interest rates in 12 months (and vice-versa). Nonetheless, this last sensitivity is becoming more neutral given the increase in time deposits in 2023. We expect BCH's NIM pressure of 40bp in '24 (vs. -100bp observed in 2024), due to lower inflation levels, which should be partially offset by inferior funding costs on lower interest rates. Importantly, the payment of the credit line to the Central Bank could reduce Banco de Chile's investments securities by ChP100bn. We believe this could represent lower financial interests, in which the impact could be registered in NII or financial results.

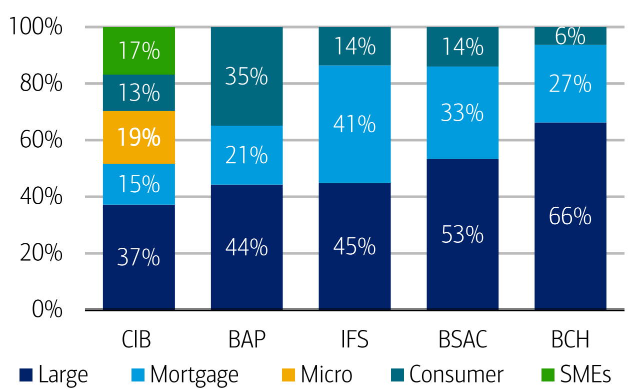
Peruvian banks should experience NIM pressure in 2024 under lower rates (only applies to BAP's portfolio denominated in US dollars), while accelerated loan growth in retail exposure and SMEs should be seen after the potential impact of El Niño. We expect interest rates cuts of 275bp in 2024 to 4.0%.

BAP's NIM sensitivity. Given the management of BAP's ALCO, we no longer see a material impact from lower rates to the portfolio denominated in Soles, although still impacted by lower US rates in the portfolio denominated in dollars. Furthermore, we expect NIM pressure of -20bp in '24, which could be partially offset by increased exposure into retail/SMEs after leaving behind the impact of El Niño after 1Q24, while no longer recognizing government support programs with lower spreads.

IFS's NIM sensitivity. IFS tends to have a neutral impact from interest rates. We expect NIM pressure of only 10bp in '24 supported by increased exposure into merchants/SMEs, and leaving behind government programs.

Exhibit 8: Andeans Banks – Loan Portfolio breakdown text

~34% of Chilean loans are mortgage loans linked to inflation



Source: Companies reports, BofA Global Research

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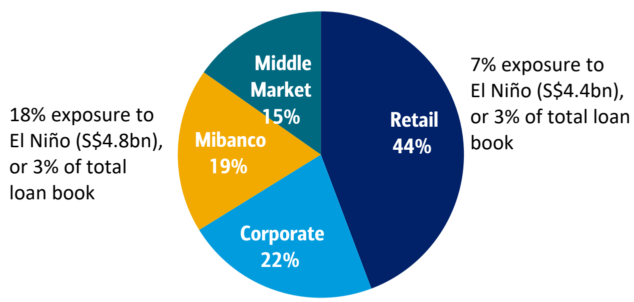
3. Removing a strong "El Niño" from the base case scenario

Peru has faced extraordinary impacts related to "El Niño" weather phenomenon in other years (1925, 1983, 1998 and 2017). According to BAP's and IFS' managements, the potential impact from current "El Niño" could be like the one experienced in 2017. As such, the probability of a strong "El Niño" has reduced significantly.

- **BAP:** We assume additional provision charges of S$680 in 4Q23 (vs. Ps900mn before) and S$460mn in 1Q24 (S$700mn before) based on expected losses from a potential impact of a moderate El Niño, which will imply provisioning 12% of the BAP's loan book exposure on potential impacted areas (vs. 17% before). Our CoR estimate assumes a jump of 180bp in 4Q23 (to 4.3%) in 4Q23. Meanwhile, our 2023 cost of risk would be at 2.7% (at the mid-point of the guidance range of 2.6-2.9%).

Exhibit 9: BAP - Exposure to El Niño
Only 6% of BAP's loan book on located impacted areas



Source: Company data and BofA Global Research estimates

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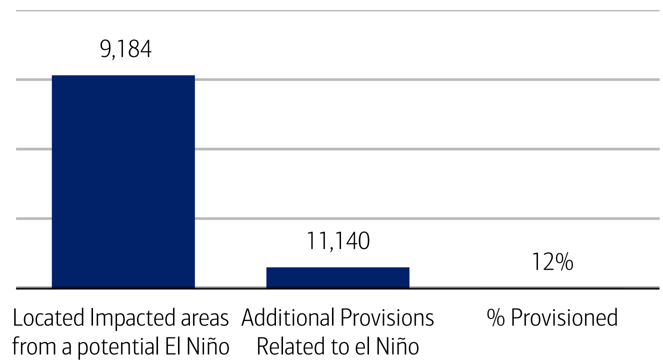
Exhibit 10: BAP – Estimated provisions charges built for El Niño
12% provisioned from BAP's loan book exposure on potential impacted areas



Source: BofA Global Research estimates

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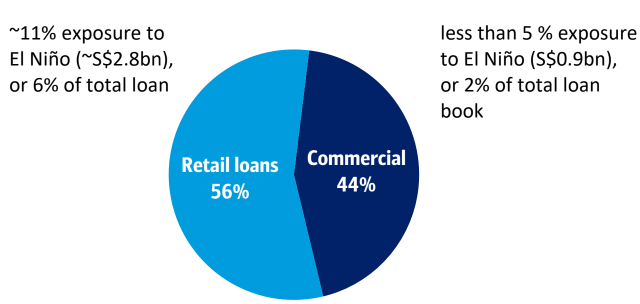
- **IFS:** We estimate additional provision charges of S$206mn in 4Q23 (vs. S$391mn before) based on expected losses from a potential impact of a moderate to strong El Niño, which will imply provisioning 6% of the potential IFS's loan book exposure on potential impacted areas. Our CoR estimate assumes a jump of 180bp (vs. 220bp before) in 4Q23 (to 6.7%), which is significantly 2.5x higher to El Niño experienced in 2017 (+50bp during 4Q16 and 1Q17—to 2.8%). Our 2023 cost of risk would be at 4.6% (at the mid-point of the guidance range of 4.2-4.8%).

Exhibit 11: Exposure to El Niño
Around 8% of IFS total loan portfolio on located impacted areas



Source: Company data and BofA Global Research estimates

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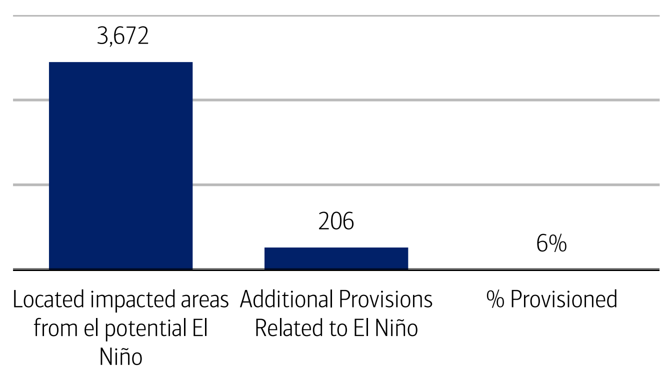
Exhibit 12: IFS – Estimated provisions charges built for El Niño
11% of potential impacted areas from El Niño's in 4Q



Source: BofA Global Research estimates

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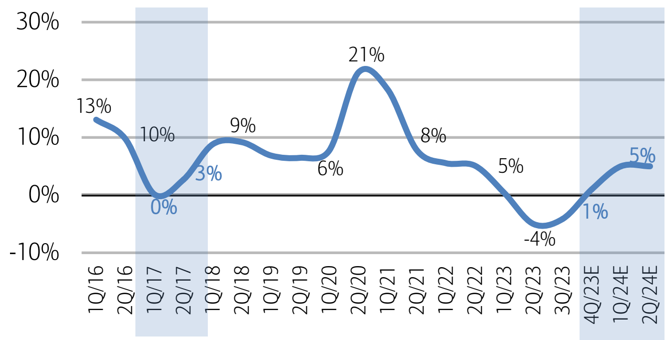
BAP: lessons from 2017 "El Niño"

Exhibit 13: Loan portfolio, YoY growth
As in 2017, expecting modest lending activity with El Niño



Source: Company data and BofA Global Research estimates

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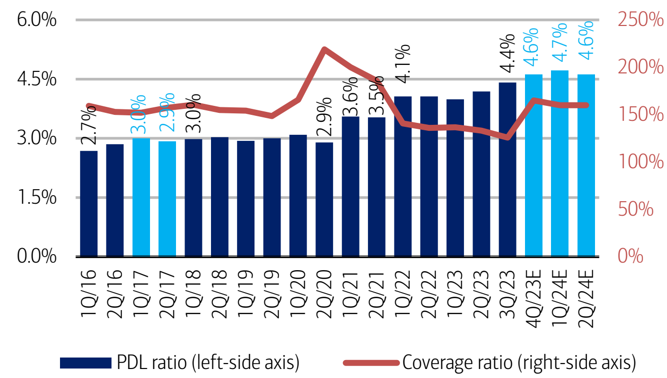
Exhibit 14: NPL is already above 2017 El Niño
Similar reserve coverage ratio vs. 2017 levels



Source: Company data and BofA Global Research estimates

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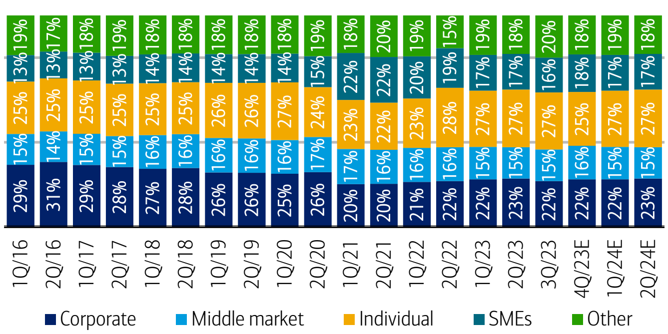
Exhibit 15: Loan mix (vs. 2017 El Niño)
Increased retail & SMEs exposure; reducing corporates



Source: Company data and BofA Global Research estimates

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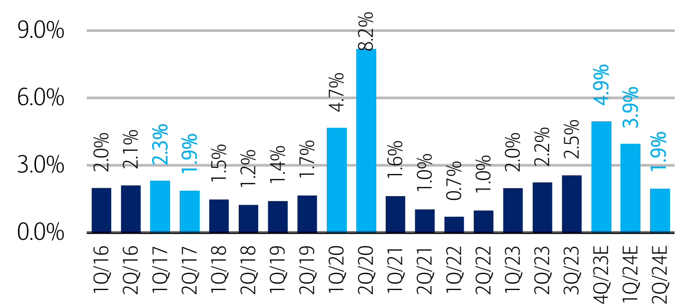
Exhibit 16: Cost of risk (CoR) above 2017 El Niño levels
Under a conservative approach, doubling CoR vs. 2017 levels



Source: Company data and BofA Global Research estimates

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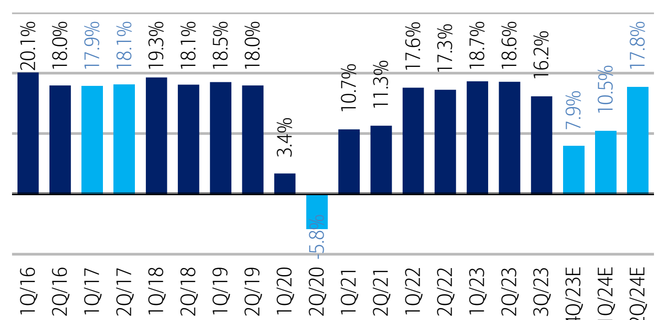
Exhibit 17: ROAE (vs. 2017 El Niño)
ROAE was practically not affected in 2017 El Niño



Source: Company data and BofA Global Research estimates

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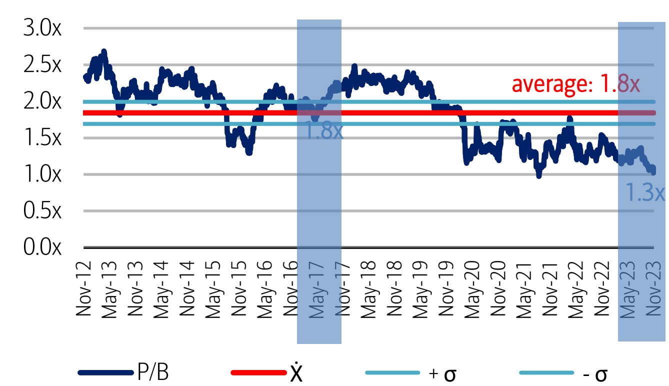
Exhibit 18: Credicorp – P/BV multiple
Already trading at historical lows



Source: Bloomberg and BofA Global Research estimates

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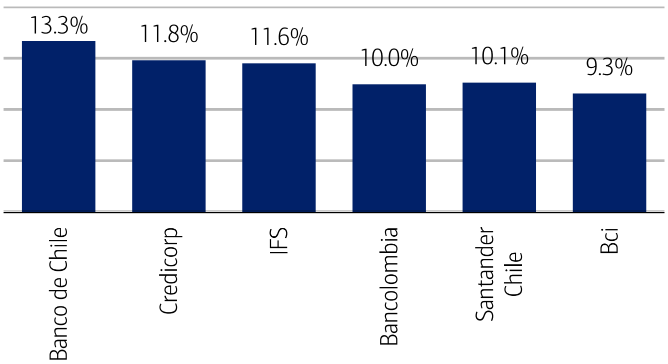
4. BCH likely to pay attractive dividend yield

We note Andean banks CET1 ratios of ~11% are well below those of Mexican and Brazil banks (at 15% & 13%, respectively). Nonetheless, Banco de Chile is the only bank in the region with a CET1 ratio of 13.5% and with room to pay a dividend pay-out ratio of 80%, which would be equivalent to a dividend yield of 9.6%

Exhibit 19: Andean banks – CET1 ratio as of 3Q23
CET1 ratios below Mexican banks (at c.15%) and Brazil banks (at c.13%)



Source: Company data and BofA Global Research estimates

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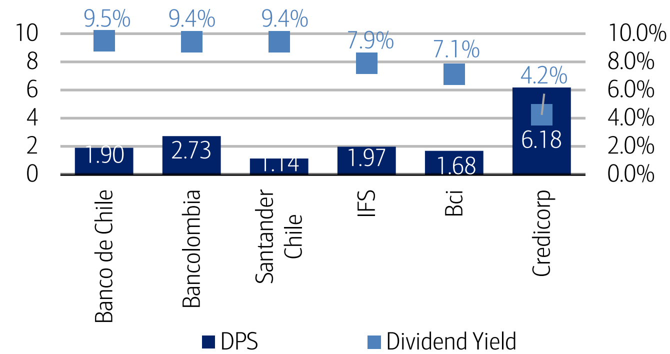
Exhibit 20: Andean banks – '23E DPS and dividend yield
A dividend yield range between 4.2-9.5%



Source: Company data and BofA Global Research estimates

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Main earnings assumptions

Peruvian banks

We expect Peruvian banks to be able to deliver double-digit earnings growth during the '24-'26 period, supported by: i) a more normalized cost of risk after leaving behind higher provisions related to el Niño in 4Q23 and in early 1Q24, and ii) modestly lower opex growth, offsetting iii) softer NII growth.

Exhibit 21: Peruvian banks – Earnings estimates
We see earnings bouncing back after leaving behind a one-time impact on provisions related to El Niño

	2023E	2024E	2025	2026
Net interest income	16%	2%	7%	11%
Fees	6%	7%	8%	9%
Expenses	8%	8%	8%	6%
Pre-provision profit	**26%**	**2%**	**7%**	**14%**
Provision charges	135%	-22%	-21%	2%
Net income	**-8%**	**22%**	**20%**	**18%**
Loans	3%	5%	8%	8%

Source: BofA Global Research estimates / * integrated by BAP and IFS

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We expect the following '24 trends per bank:

- **BAP:** anticipate double-digit NI growth supported by a more normalized cost of risk of 2.1% (vs. 2.7% in 2023) as our numbers already assume additional provisions of S$680mn in 4Q23 and S$460mn in 1Q24 from a potential impact of a moderate to strong El Niño, which will imply provisioning of the 12% of the potential BAP's loan book exposure to impacted areas. Meanwhile, we expect opex to keep the same pace of growth, and stronger non-credit related revenues (starting to see the benefits from Yappe and the digital transformation), offsetting softer NII growth.

- **IFS:** net income should bounce back driven by a normalization in provisions (El Niño is a one-time impact) and a gradual recovery in the wealth management business. We estimate 8% of IFS' total loan book to located impacted areas forma potential El Niño (unlikely that all of them will require to reschedule or apply for support programs). Our estimates assume IFS to provision ~6% of located impacted areas in 4Q23.

Exhibit 22: Peruvian banks - Key earnings drivers by bank
Earnings to improve in 2024 after leaving behind provisions losses based on expected losses related to El Niño

	Credicorp				IFS			
YoY growth	**23E**	**24E**	**25E**	**26E**	**23E**	**24E**	**25E**	**26E**
NII	17%	1%	7%	12%	11%	4%	8%	8%
Loan Balance	1%	5%	9%	9%	9%	4%	7%	7%
Fee income	6%	7%	8%	9%	5%	7%	8%	8%
Opex	10%	8%	8%	6%	4%	5%	5%	5%
Pre-provision profit	23%	1%	6%	15%	39%	4%	10%	10%
Prov. charges	124%	-19%	-27%	1%	159%	-28%	-9%	3%
Recurring NI	**2%**	**13%**	**19%**	**19%**	**-40%**	**73%**	**26%**	**15%**
NIM	5.7%	5.5%	5.4%	5.5%	5.7%	5.6%	5.6%	5.6%
Prov/avg loans	2.7%	2.1%	1.5%	1.4%	4.6%	3.1%	2.7%	2.6%
NPLs / loans	4.6%	4.3%	4.2%	4.1%	3.7%	3.4%	3.1%	2.8%
Rec. ROAE	**15.8%**	**16.1%**	**17.1%**	**18.1%**	**9.4%**	**15.1%**	**16.8%**	**17.0%**
Rec. NI	**4,809**	**5,435**	**6,454**	**7,652**	**896**	**1,549**	**1,945**	**2,229**

Source: BofA Global Research estimates / * integrated by BAP and IFS

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Chilean banks

We expect Chilean banks' earnings to show modest earnings growth in 2024 (except Santander Chile), as NIMs have started to trend-down on lower inflation levels. Within Chilean banks, we prefer Santander Chile, as we see the worst is behind and earnings are poised to inflect next year and expand ROE.

Exhibit 23: Chilean banks – Earnings estimates
Earnings recovery more tangible in 2025-2026 on increased retail exposure

	2023A	2024E	2025	2026
Net interest income	-18%	9%	13%	12%
Fees	6%	11%	10%	10%
Expenses	8%	4%	3%	3%
Pre-provision profit	**-14%**	**12%**	**16%**	**15%**
Provision charges	-7%	23%	11%	11%
Net income	**-22%**	**4%**	**18%**	**16%**
Loans	5%	6%	7%	7%

Source: BofA Global Research estimates / * integrated by Santander Chile, Banco de Chile and Bci

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We expect the following trends per bank:

- **Santander Chile:** Earnings should bounce back in 2024 after leaving behind a negative valuation in a derivatives position in 2022-23 under higher rates. NIMs should start to benefit from lower rates (we have already seen a cut of -300bp in 2023, while expect another decline of -300bp in 2024). Earnings recovery should be supported by better loan mix, NIM expansion under lower rates, stable provision charges, and opex under control. As such, ROE is expected to recover to ~19% in the next years from ~12% in 23.

- **Banco de Chile:** NI should contract 18% in 2024 (vs. -14% in '23), given i) NIM pressure on lower inflation levels, and ii) lower investment securities yield after paying the credit line to the Central Bank. Those should be partially offset by high single-digit fee growth and inferior opex on lower inflation. Consequently, ROAE is expected to decline to ~19% in '29 from 24% in '23.

Exhibit 24: Chilean banks – Key earnings drivers by bank
Except Santander Chile, earnings should experience practically no growth in 2024

	Santander Chile				Banco de Chile			
YoY growth	**23A**	**24E**	**25E**	**26E**	**23E**	**24E**	**25E**	**26E**
NII	-30%	40%	17%	11%	-15%	-4%	10%	12%
Loan Balance	5%	6%	7%	7%	5%	6%	7%	7%
Fee income	23%	11%	10%	10%	2%	7%	8%	8%
Opex	2%	3%	3%	3%	9%	4%	3%	2%
Pre-provision profit	-18%	48%	19%	12%	-11%	-10%	10%	14%
Prov. charges	6%	8%	8%	0%	-23%	26%	7%	7%
Recurring NI	**-39%**	**56%**	**24%**	**12%**	**-14%**	**-18%**	**11%**	**16%**
NIM	2.3%	3.0%	3.3%	3.4%	3.9%	3.5%	3.6%	3.8%
Prov/avg loans	1.2%	1.2%	1.2%	1.2%	0.9%	1.1%	1.1%	1.1%
NPLs / loans	2.5%	2.6%	2.7%	2.8%	1.4%	1.5%	1.6%	1.7%
Rec. ROAE	**11.6%**	**16.8%**	**18.8%**	**19.1%**	**24.0%**	**18.2%**	**18.3%**	**18.6%**
Rec. NI	**495**	**774**	**957**	**1,069**	**1,211**	**991**	**1,098**	**1,272**

Source: BofA Global Research estimates

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Changes in earnings estimates

Exhibit 25: Andean banks
Assuming a more moderate impact from el Niño on Peruvian banks, while reducing our estimates for Chilean banks after lower investment yields on investment securities

	2023E			2024E			2025E			2026E
	New	**Old**	**Change**	**New**	**Old**	**Change**	**New**	**Old**	**Change**	**New**
Credicorp										
Net income	**4,809**	**4,650**	**3%**	**5,435**	**5,312**	**2%**	**6,454**	**6,462**	**0%**	**7,652**
ROE	15.8%	15.3%	50 bps	16.1%	15.8%	30 bps	17.1%	17.2%	-10 bps	18.1%
IFS										
Net income	**896**	**846**	**6%**	**1,549**	**1,441**	**7%**	**1,945**	**1,830**	**6%**	**2,229**
ROE	9.4%	8.9%	50 bps	15.1%	14.2%	90 bps	16.8%	16.0%	70 bps	17.0%
Banco de Chile										
Net income	**1,211**	**1,138**	**6%**	**991**	**1,082**	**-8%**	**1,098**	**1,198**	**-8%**	**1,272**
ROE	24.0%	22.2%	180 bps	18.2%	18.8%	-60 bps	18.3%	18.5%	-20 bps	18.6%
Santander Chile										
Net income	**495**	**519**	**-5%**	**774**	**784**	**-1%**	**957**	**949**	**1%**	**1,069**
ROE	11.6%	12.2%	-50 bps	16.8%	16.9%	-10 bps	18.8%	18.6%	20 bps	19.1%

Source: BofA Global Research estiamtes

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PO derivation

We derive our POs from the Gordon Growth Model, assuming a US risk-free rate of 3.5% (vs. 4.0% previously), different country risk per country (roughly in-line with the 10Y CDS in each country), inflation differential of 2.0%, and 4% nominal growth in perpetuity.

Our sustainable ROEs are based on our forecasts for each individual bank in-line with our 2024 estimates. We assume a beta of 1.0x for most of the Chilean banks (on better economic activity and reduced political noise), and 1.1x for the Peruvian banks (impact from El Niño and still political uncertainty), 1.2x/1.4x for small-cap names due to lower liquidity (IFS). The latter with the lowest liquidity in the region.

Exhibit 26: Andean banks – Price Objective decomposition
Small-cap banks with the highest upside potential

	BAP	IFS	BCH	BSAC
Rating	Buy	Buy	Underperform	Buy
Beta	1.1x	1.4x	1.0x	1.0x
US Treasury - 10yr (bp)	**350**	**350**	**350**	**350**
Country risk spread (bp)	**170**	**170**	**100**	**100**
Equity risk premium (bp)	570	570	570	570
Inflation diff. (bp)	200	200	200	200
ROAE (%)	**18**	**17**	**19**	**19**
Growth (%)	4	4	4	4
COE (%)	**13.4**	**15.2**	**12.2**	**12.2**
Target P/BV	**1.5x**	**1.2x**	**1.8x**	**1.8x**
2024E PO (local)	n.a.	n.a.	**100**	**47**
2024E PO (US$)	**179**	**29**	**22**	**21**
Implied 2024E P/E	*9.9x*	*8.1x*	*10.1x*	*11.5x*
Upside / Downside (local)	**n.a.**	**n.a.**	**-1%**	**11%**
Upside / Downside (US)	**20%**	**29%**	**-1%**	**13%**
Stock's price (local)	n.a.	n.a.	101	42
Stock's price (US)	149	23	22	19
(+) Expected dividend yield	**4%**	**3%**	**10%**	**4%**
(=) Total Potential Upside (local)	**n.a.**	**n.a.**	**9%**	**14%**
(=) Total Potential Upside (ADR)	**25%**	**32%**	**9%**	**17%**
P/E and P/BV multiples				
2023 P/BV	1.4x	1.0x	1.9x	1.8x
2024 P/BV	1.3x	0.9x	1.8x	1.6x
2025 P/BV	1.1x	0.8x	1.6x	1.5x
2026 P/BV	1.0x	0.7x	1.5x	1.5x
2023 P/E	9.3x	11.0x	8.1x	15.6x
2024 P/E	8.2x	6.3x	10.2x	10.2x
2025 P/E	6.9x	5.0x	9.4x	8.5x
2026 P/E	5.9x	4.4x	8.3x	7.8x
2024E DPS	6.2	0.7	2.1	0.7
ROAE				
23 ROAE	15.8%	9.4%	24.0%	11.6%
24 ROAE	16.1%	15.1%	18.2%	16.8%
25 ROAE	17.1%	16.8%	18.3%	18.8%
26 ROAE	18.1%	17.0%	18.6%	19.1%
EPS growth				
23 Earnings growth	2%	-40%	-14%	-39%
24 Earnings growth	13%	73%	-18%	56%
25 Earnings growth	19%	26%	11%	24%
26 Earnings growth	19%	15%	16%	12%

Source: BofA Global Research estimates and Bloomberg as of January 24

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BAP: We increase our PO to USD$179 (from USD$155) to reflect i) higher earnings estimates (moderating the impact from El Niño), ii) a lower US risk-free rate of 3.5% (vs. 4.0% before), iii) our 2026 estimates, and iv) a higher sustainable ROAE of 18% (vs. 17%), which is in-line with our 2026 estimates.

IFS: We raise our PO to USD$29 (from USD$25) to reflect i) higher earnings estimates (moderating the impact from El Niño), ii) a lower US risk-free rate of 3.5% (vs. 4.0% before), iii) our 2026 estimates, and iv) a higher sustainable ROAE of 17% (vs. 16%), which is in-line with our 2026 estimates.

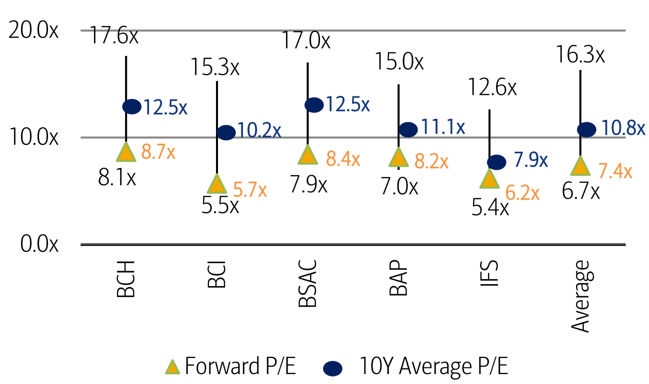
BCH: We increase our POs to USD$22 / ChP$100 (from USD$20 / ChP$93) to reflect i) lower earnings estimates, although offset by ii) a lower US risk-free rate of 3.5% (vs. 4.0% before), iii) our 2026 estimates, and iv) a higher sustainable ROAE of 19% (vs. 18%), which is in-line with our 2026 estimates.

BSAC: While we keep our '24-25 estimates relatively unchanged, we increase our POs to USD$21 / ChP$47 (from USD$20 / ChP$45) to reflect ii) a lower US risk-free rate of 3.5% (vs. 4.0% before), and ii) our 2026 estimates.

CIB: Restricted

Valuation

Exhibit 27: Andean Banks historical valuation (Fwd P/E)
Implied P/E continues to be below the 10-year historical average



Source: Bloomberg as of January 24 and BofA Global Research

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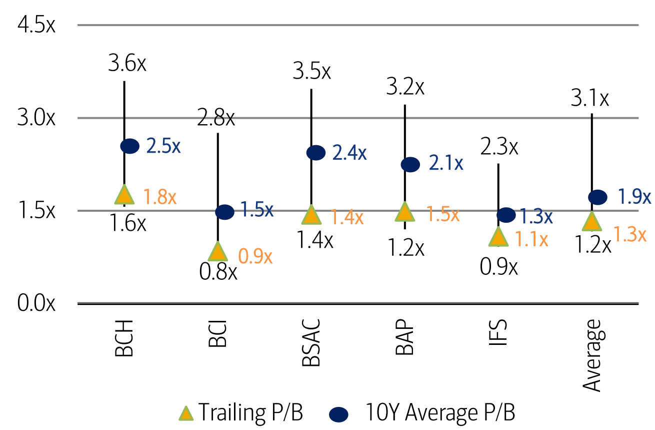
Exhibit 28: Andean Banks historical valuation (trailing P/B)
P/BV continues to be below 10-year historical average



Source: Bloomberg as of January 24 and BofA Global Research

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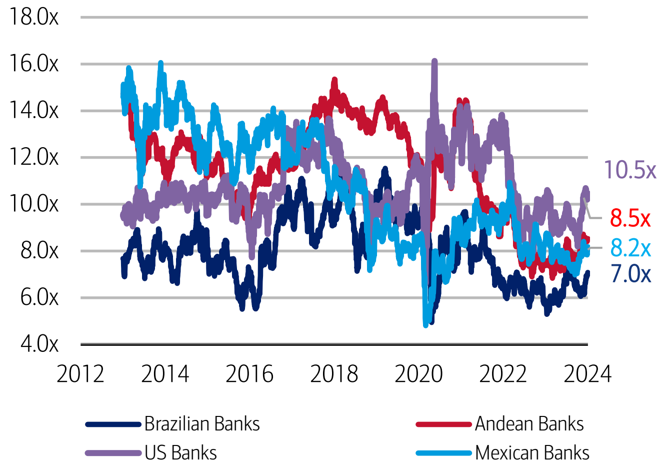
Exhibit 29: Andean Banks vs. peers valuation (Fwd. P/E)
Andean banks are trading at discount to US banks, but at a premium to Mexican and Brazil banks



Note: Brazilian Banks include Banco do Brasil, Bradesco, Santander Brasil and Itau Unibanco
Mexican Banks include Bajio, Banorte, Inbursa, Regional and Santander Mexico;
Andean Banks include IFS, Banco de Chile, Bci, Bancolombia and Credicorp;
US Banks include JP Morgan, Citi Bank and Bank of America.
Source: Bloomberg as of January 24 and BofA Global Research

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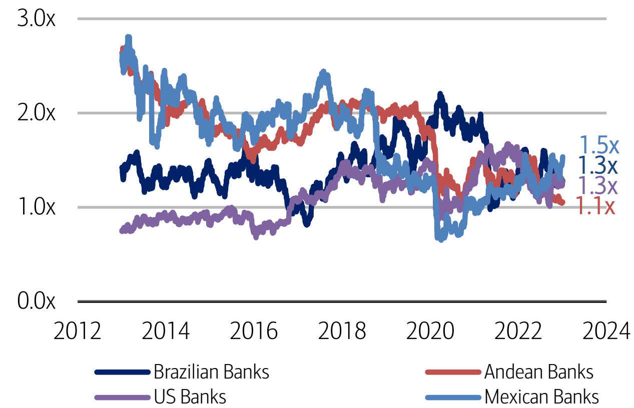
Exhibit 30: Andean Banks vs. peers valuation (P/BV)
Andean Banks are trading at discount to US, Mexico and Brazil banks



Note: Brazilian Banks include Banco do Brasil, Bradesco, Santander Brasil and Itau Unibanco
Mexican Banks include Bajio, Banorte, Inbursa, Regional and Santander Mexico;
Andean Banks include IFS, Banco de Chile, Bci, Bancolombia and Credicorp;
US Banks include JP Morgan, Citi Bank and Bank of America.
Source: Bloomberg as of January 24 and BofA Global Research

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Exhibit 31: Companies mentioned
Companies mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BCH	BCH US	Banco Chile-ADR	US$ 22.17	B-3-7
XHNDF	CHILE CI	Banco de Chile	CLP 100.56	A-3-7
BAP	BAP US	Credicorp Ltd	US$ 148.71	B-1-7
IFS	IFS US	Intercorp Financial	US$ 22.5	B-1-7
BSAC	BSAC US	Santander Chile	US$ 18.62	B-1-7
XLDTF	BSAN CI	Santander Chile	CLP 42.45	A-1-7

Source: BofA Global Research

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Price objective basis & risk

Banco Chile-ADR (BCH)

Our price objective for Banco de Chile of CLP93 per share (US$20/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 18%, a cost of equity of 13.1% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

Banco de Chile (XHNDF)

Our price objective for Banco de Chile of CLP93 per share (US$20/ADR) is based on a Gordon Growth model, assuming a sustainable ROE of 18%, a cost of equity of 13.1% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Downside risks are macro deceleration, constitutional changes and a tough regulation against the banks, impacting loan growth and asset quality, difficulties improving cost efficiencies and increased tax rates. Upside risks to our PO are faster-than-anticipated inflation benefiting NIMs and a more benign macro scenario, which would increase loan growth expectations.

Banco Santander Chile (BSAC)

Our price objective for Santander Chile of USD20 per ADR / CLP$45 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, cost of equity of 12.6% in nominal CLP, and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Upside risks to our PO are higher inflation levels, greater cost-controls and better-than-expected macro impacting loan growth and asset quality.

Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

Banco Santander Chile (XLDTF)

Our price objective for Santander Chile of USD20 per ADR / CLP$45 per share is based on a Gordon Growth model, assuming a sustainable ROE of 19%, cost of equity of 12.6% in nominal CLP and a perpetual growth rate of 4% in nominal CLP. Our cost of equity is derived using a capital asset pricing model with a Chile sovereign spread of 140 bp and a beta of 1.0x

Upside risks to our PO are higher inflation levels, greater cost-controls and better-than-expected macro impacting loan growth and asset quality.

Downside risks to our PO are NIM margin pressure from lower inflation levels and an upward trend in the effective tax rate.

Credicorp Ltd (BAP)

Our price objective for Credicorp of US$155 ADR is based on a Gordon Growth valuation model. The main inputs are sustainable ROE of 17%, cost of equity of 13.5% and growth of 4%. Our PO implies a target P/BV of 1.4x

Downside risks to our PO are (1) unfriendly economic policies, and (2) higher deterioration in the bank's retail, SME and microfinance portfolio. Meanwhile, upside risk imply (1) a faster economic growth supported by metals and domestic economy, (2) lower asset quality deterioration, and (3) and pro-market economic policies announced by the new administration.

IFS (IFS)

Our price objective for IFS of US$25 per share is derived from the Gordon Growth Model, assuming a COE of 15.3% (reflecting a US risk-free rate of 4.0%, Peru country risk of 190bp, and beta of 1.3x (lower liquidity than peers), a sustainable ROE of 16% (in line with our estimates, and below company's medium-term target of 18%) and 4% growth in perpetuity

Downside risks are 1) asset quality deterioration under a weaker macro scenario, 2) political noise calling for early elections, 3) a potential currency mismatch & changes in interest rates, and 4) regulatory risks on the insurance business.

Upside risks are 1) stronger economic activity, 2) entering the SME and unbanked segments, while maintaining solid asset quality trends, 3) improved efficiencies by migrating to digital channels, 4) pro-market economic policies.

Analyst Certification

We, Ernesto Gabilondo, Antonio Ruette and Flavio Yoshida, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Latin America - Financials Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	B3	XIMAF	B3SA3 BZ	Mario Pierry
	B3	BOLSY	BOLSY US	Mario Pierry
	Bajio	BBAJF	BBAJIOO MM	Ernesto Gabilondo
	Banco do Brasil	XBBAF	BBAS3 BZ	Mario Pierry
	Banco do Brasil	BDORY	BDORY US	Mario Pierry
	Banco Santander Chile	BSAC	BSAC US	Ernesto Gabilondo
	Banco Santander Chile	XLDTF	BSAN CI	Ernesto Gabilondo
	Banorte	GBOOF	GFNORTEO MM	Mario Pierry
	Banorte	GBOOY	GBOOY US	Mario Pierry
	Bci	BZCIF	BCI CI	Ernesto Gabilondo
	BTG Pactual	XNXCF	BPAC11 BZ	Flavio Yoshida
	Caixa Seguridade	XDXUF	CXSE3 BZ	Mario Pierry
	Credicorp Ltd	BAP	BAP US	Ernesto Gabilondo
	Gentera	CMPRF	GENTERA* MM	Ernesto Gabilondo
	Grupo BMV	BOMXF	BOLSAA MM	Ernesto Gabilondo
	IFS	IFS	IFS US	Ernesto Gabilondo
	Inter	XBZIF	INBR32 BZ	Mario Pierry
	Inter	INTR	INTR US	Mario Pierry
	Itau Unibanco	ITUBF	ITUB4 BZ	Mario Pierry
	Itau Unibanco	ITUB	ITUB US	Mario Pierry
	PagSeguro Digital Ltd	PAGS	PAGS US	Mario Pierry
	Regional	RGNLF	RA MM	Ernesto Gabilondo
	StoneCo	STNE	STNE US	Mario Pierry
	XP Inc.	XP	XP US	Mario Pierry
NEUTRAL				
	ABC Brasil	XBABF	ABCB4 BZ	Flavio Yoshida
	Banco Pan	XQSFF	BPAN4 BZ	Flavio Yoshida
	Banrisul	XGRBF	BRSR6 BZ	Flavio Yoshida
	BB Seguridade	XBDPF	BBSE3 BZ	Mario Pierry
	BB Seguridade	BBSEY	BBSEY US	Mario Pierry
	Bradesco	BRDPF	BBDC4 BZ	Mario Pierry
	Bradesco -A	BBD	BBD US	Mario Pierry
	Cielo	CIOXF	CIEL3 BZ	Mario Pierry
	Cielo	CIOXY	CIOXY US	Mario Pierry
	Nubank	NU	NU US	Mario Pierry
	Porto Seguro	PSGUF	PSSA3 BZ	Mario Pierry
UNDERPERFORM				
	Banco Chile-ADR	BCH	BCH US	Ernesto Gabilondo
	Banco de Chile	XHNDF	CHILE CI	Ernesto Gabilondo
	Banco Macro	BMA	BMA US	Ernesto Gabilondo
	Banco Macro	BCVMF	BMA AR	Ernesto Gabilondo
	GFInbur	GPFOF	GFINBURO MM	Ernesto Gabilondo
	Grupo Financiero Galicia	GGAL	GGAL US	Ernesto Gabilondo
	Grupo Financiero Galicia	GGABF	GGAL AR	Ernesto Gabilondo
	Qualitas	QUCOF	Q* MM	Ernesto Gabilondo
	Santander Brasil	XCBDF	SANB11 BZ	Mario Pierry
	Santander Brasil	BSBR	BSBR US	Mario Pierry
	Supervielle	SUPV	SUPV US	Ernesto Gabilondo
	Supervielle	XAZFF	SUPV AR	Ernesto Gabilondo
RSTR				
	Bancolombia	CIB	CIB US	Ernesto Gabilondo
	Bancolombia	XAFFF	PFBCOLO CB	Ernesto Gabilondo

Disclosures

Important Disclosures

Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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