Intercorp Financial Services Inc.

3Q22 Earnings

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PRESENTATION

Operator
Good morning and welcome to the Intercorp Financial Services Third Quarter 2022 Conference Call. All lines have been placed on mute to prevent any background noise. Please be advised that today's conference is being recorded. After the presentation, we will open the floor for questions, and at that time, instructions will be given as to the procedure to follow if you would like to ask a question. Also, you can submit online questions at any time today using the window on the webcast, and they will be answered after the presentation during the Q&A session. Simply type your question in the box and click Submit Question.

It is now my pleasure to turn the call over to Rafael Borja of InspIR Group. Sir, you may begin.

Rafael Borja
Thank you, operator. Good morning everyone. On today's call, Intercorp Financial Services will discuss its third quarter 2022 earnings. We are very pleased to have with us Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services; Mrs. Michela Casassa, Chief Financial Officer of Intercorp Financial Services; Mr. Gonzalo Basadre, Chief Executive Officer of Interseguro; Mr. Bruno Ferreccio, Chief Executive Officer of Inteligo and Mr. Carlos Tori, Executive Vice President of Payments at Intercorp Financial Services. They will be discussing the results that were distributed by the company yesterday.

There is also a webcast video presentation to accompany the discussion during this call. If you didn't receive a copy of the presentation or the earnings report, they are now available on the company's website ifs.com.pe to download a copy. Otherwise, for any reason, if you need any assistance today, please call InspIR Group in New York at 212-710-9686. I would like to remind you that today's call is for investors and analysts only, therefore, questions from the media will not be taken.

Please be advised that forward-looking statements may be made during this conference call. These do not account for future economic circumstances, industry conditions, the company's future performance, or financial results. As such, these statements made are based on several assumptions and factors that could change, causing actual results to materially differ from the current expectations. For a complete note on forward-looking statements, please refer to the earnings presentation and report issued yesterday.

It is now my pleasure to turn the call over to Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services, for his opening remarks. Mr. Castellanos, please go ahead, sir.

Luis Felipe Castellanos
Thank you. Good morning, everyone, and welcome to our third quarter earnings call. Thank you very much for attending our call today. We are glad to deliver a good performance this quarter, as you will hear during our presentation.

Focusing on recent developments affecting our country, we continue to see an uncertain political environment. Accusations against President Castillo and members of the government continue to stretch out in Congress and in the judiciary branch. We believe these headlines and news around corruption will continue with no clear path for resolution of these issues.

On the latest announcements of rating agencies last month, Fitch ratings decided to keep Peru's sovereign rating at BBB but changed the outlook from stable to negative due to this political instability and stating a deterioration of the effectiveness of measures implemented by the government. For its part, S&P Global Ratings ratified its own BBB rating with a stable outlook on the back of the macro balances and stable public finances.

On the economic front, following widespread talks of a global recession, the latest survey of expectations by the Central Bank shows Peru's GDP growth estimates for '22 and '23 slightly decreasing to 2.7% and 2.5%, respectively. With consumer dynamics moderating, we at IFS started tightening our underwriting standard in consumer loans and SMEs early in the quarter while acknowledging a gradual normalization in cost of risk levels, as Michela will touch upon later in the call.

Later today, Peru's Central Bank will hold its monthly monetary policy meeting. While we cannot discard an additional 25 basis point rate hike as most expectations point to, we believe we are getting close to the end of the hiking cycle with a policy rate currently at 7%. The recent slowdown in the 12-month inflation rate to 8.3% from mid-year levels of 8.8% is consistent with this reading, yet inflation expectations for year-end and most part of 2023 remain above the Central Bank target range.

Related to that, higher interest rates have held margins this year. Deposits costs only climbed modestly through the first half of the year, however, have accelerated in the second half, slowing margin expansion. Notwithstanding this background, we are happy to continue to see double-digit growth in banking and insurance revenues, moderation of investment losses in wealth management, and solid growth of our payment business.

It is important to note that this week, for instance, the banking superintendent announced that the number of monthly mobile transactions in the banking system has increased by 17 times since 2019. The superintendent has qualified this as explosive growth that has benefited customers in terms of convenience, speed, and efficiency. Indeed, mobile banking transactions in the country now exceed the number of transactions in all other channels added together. The interoperability mandate detected by the Central Bank will accelerate this with an opportunity to bring more people into the financial system while reducing the use of cash.

To round up, we confidently believe that our culture, our people, our efficient operations, our sound capitalization, and our strong digital traction continue to be our strength and are the pillars that will allow us to continue to deliver sustainable growth in the future.

Now let me pass it on to Michela for a detailed update of our results. Thank you very much.

Michela Casassa
Thank you very much, Luis Felipe. Good morning and welcome everyone to Intercorp Financial Services' third quarter 2022 earnings call. This time we will focus on two items of the agenda, which include financial highlights and our key messages and takeaways.

I will start with a brief summary of financial highlights on slides 3 to 10. The main highlights are on slides 3 and 5. IFS had another strong quarter in banking, insurance, and payments, with a smaller negative impact from investments in wealth management. Moreover, this quarter we had a positive one-off impact of 223 million soles due to the accounting revaluation from book value to the price paid of the previously owned 50% of Izipay at Interbank, which only impacts IFS standalone as it now has full control of the company. With all of these, reported earnings came at 613 million soles in the quarter and 391 million soles when excluding the one-off impact, which represents an important recovery in IFS earnings of more than 50% on a quarterly basis, even excluding the one-off. Reported ROE for the quarter came at 26.5% and is 17.1% when excluding the one-off evidencing here, again, the strong improvement of this quarter. Banking, insurance, and payments had all a strong quarter with 21.4%, 46.8%, and 23.6% ROE, respectively.

When looking at the nine-month figures, reported earnings reached 1,268 million soles or 1,046 million soles when excluding the one-off. In the yearly comparison of cumulative results, the above average positive results of wealth management in 2021 but also of insurance, which have turned negative in the case of wealth management, this year, are penalizing the yearly trends which are extremely positive in the case of banking, insurance, and payments. Reported ROE for the nine months 2022 of IFS was 18.2% and was 15.1% when excluding the one-off, slightly below guidance mainly due to the negative impact from investments as ROE for banking, insurance, and payments for the nine months are all above historical levels at 19.8%, 31.3%, and 28.3%, respectively.

On banking, we had another positive quarter in core activity with some signs of moderation due to the macro scenario. The shift in loan mix and repricing continue to positively impact NIM this quarter up to 5% in the bank and in line with the change in portfolio mix, cost of risk has reached 1.9%. This was a very good quarter for retail deposits, which grew 9% in the quarter, driving market share up to 14.8%.

On insurance, earnings grew 31% Q on Q with a high ROE of 46.8% thanks to a strong growth of premiums quarter on quarter and a strong investment income with a return on the investment portfolio still high at 7.9% in the quarter. On wealth management, results recovered slightly but continue to be affected by a negative impact on the investment portfolio.

Finally, on our payment business on one side, Izipay continues with the solid growth in business, with acquiring fees up 11% on a quarterly basis and 44% on a yearly basis. Strong growth in number of merchants and transactional volumes and gaining share within our volumes in e-commerce, reaching 18% in the quarter. Additionally, Plin and Tunki continue with very strong growth of users and transactions, as we will see more details further on in the presentation, which should help us to benefit from the near future interoperability, which will start end of March next year.

Among the key performance indicators for the quarter and semester on slides 6 and 7, I would like to highlight the continuous improvement in the quarterly and yearly NIM of IFS. There has been a 20 basis point improvement in the quarterly NIM of IFS, driving NIM up to 5.2% in the quarter and the nine months NIM to 4.9%, already above our guidance.

On slide 8, total recurring revenue for IFS grew 12% on a quarterly basis thanks to the growth registered in banking of 7% in the quarter, insurance of 4%, and payments which grew 5% together with a recovery in revenues from wealth management from a 78 million negative to a 3 million positive thanks to a higher net interest income and a more limited negative other income. On a yearly basis, the increases in revenues are 22%, 15%, and 9% for banking, insurance, and payments, respectively.

On slide 9, the reported efficiency ratio of IFS was 33% in the quarter or 37.5% when excluding the one-off effect on revenues, slightly above our 35% to 37% guidance provided at the beginning of the year. But it would be within our guidance when excluding the impact on revenues from the investment loss at the wealth management business. It is important to note that there is an impact in the reported figures of IFS due to the consolidation of Izipay figures starting April this year, which reflects a higher increase in expenses reported as they are included this year and are not considered in 2021. Normalizing Izipay effect in the cost base of 2021, expenses at IFS grew only 3% on a quarterly basis and 6% on a yearly basis.

At Interbank efficiency ratio starts to improve thanks to the positive operating leverage of the quarter, driving the efficiency ratio down to 40% as revenues have increased much more than expenses during the first nine months of the year, which have increased 10% mainly due to three reasons: a 17% increase in technology cost and new ventures which include the technology expenses for our digital transformation as well as new investments in payments, a 9% increase in personnel cost which is mainly coming from the increase in mandatory employee profit-sharing in line with the improvement of the local GAAP earnings and a 14% increase in variable cost related mainly to credit cards and in line with the percentage increase in credit and debit cards turnover which generates fee and financing volumes. Other expenses have grown single digit reflecting our continuous cost-efficiency efforts. Moreover, we have continued with our branch optimization reaching a total reduction in number of branches of 43% or more than 110 branches from the peak in 2016.

On slide 10, we continue to have a solid capital position as evidenced by the ratios of Interbank but also at Interseguro, and Inteligo. Core equity tier 1 ratio at Interbank is 11.6% as of September 2022, and total capital ratio stands at 15.2%, well above the industry's average of 14.5% despite the strong growth in loans registered this year. It is important to mention that starting January 2023, we will implement some changes to the calculation of capital ratios in line with new regulation published by the superintendency this year which is currently being discussed and fine-tuned for the banking segment as well as some changes in wealth management established by the Central Bank of Bahamas.

Now I will focus on the six key messages we would like you to take home from this call on slide 12. First, we are operating in a cloudy macro outlook. Second, we had another strong quarter in core banking business with some moderation in growth. Third, we continue to work on our two-tier digital strategy showing positive developments in our digital indicators to foster growth at IFS. Fourth, strong investment results in insurance yet still impacted but to a lower extent in wealth management. Fifth, we continue to see strong growth in payment business, and finally, we continue making progress in our sustainability efforts with our new 2022 Corporate Sustainability Assessment score at 62, improving nine points from last year.

On slide 13, we are showing the evolution of same key macro indicators. GDP growth continues to be low, with an estimate of 1.7% for the yearly growth of the third quarter. Interest rates have continued to increase, with the Central Bank's reference rate of 7% and the dollar rate at 4%. The exchange rate has registered ups and downs in the past weeks, reaching 3.99 soles per dollar at the end of October, and inflation continues high at 8.3% as of October, showing some first signs of change in trend to be verified in the remaining months of the year.

On slide 15, moving to the good news on banking. We have continued to see a good performance in activity in the quarter, yet some signs of slowing down in financing have continued, as discussed during the previous call, as we have adjusted our credit underwriting standards in specific sub-pockets of low-income clients, which start to see some impacts of the slowdown in the economy and sustained inflation.

Despite this, credit cards and debit cards turnover has continued to increase year-over-year, or 46% for credit cards and 24% for debit cards. Despite the slowdown in the economy, we continue to see important growth in turnover as both credit and debit cards continue their path of increased penetration in the country, which continues to be low.

This growth has allowed us to increase market share around 100 basis points in the past 12 months for the combined turnover thanks mainly to our Interbank benefit program, our increased focus on e-commerce and high-growth product categories, and finally, also thanks to our up-selling strategy. Moreover, credit card sales have increased 11% year-over-year, close to 2019 levels but in a lower pace than the previous quarter due to the tightening of underwriting standards previously mentioned. For this same reason, new disbursement of personal loans has seen a further slowdown when compared to the previous quarter. As of the end of September credit cards and personal loan balances were up 37% when compared to last year and well above 2019.

On the SMEs front, we've also seen a moderation of growth during this quarter, but disbursements continue to be strong in the third quarter and are 34% above the level of the last year and are helping this portfolio to grow nicely during this year starting from a very low base of less than 3% market share in this segment.

On slide 16, we continue to see solid double-digit growth in banking revenues thanks to double-digit growth in net interest income and fee income. Net interest income grew 24%, with a strong contribution of net interest income coming from credit cards and personal loans. Fee income grew 28% thanks to the strong growth of credit cards fee income due to the strong evolution of credit and debit cards turnover but also to the sustained strong growth in fee income coming from cash management services in commercial banking. Other income at the bank was up 3% year-over-year and continues to recover. All in all, total core revenues grew 22% year-over-year, a very strong recovery in banking revenues which continues with a positive operating leverage.

On slide 17, we continue to see a strong portfolio shift to higher yielding loans. Retail loans reached 52% of the total portfolio versus 48% one year ago. Moreover, credit cards and personal loans reached 21% of the total loan book versus 16% one year ago. Reactiva loans represent only 6% of the total loan book, down from 13% one year ago. These effects, together with the increase in the SME loan book, still small, and the increasing rates is pushing yield on loans upward 70 basis points in the quarter and 190 basis points in the year reaching 9.8% and NIM 10 basis points in the quarter and 100 basis points in the year reaching 5%.

Risk adjusted NIM has also improved 10 basis points in the quarter and 50 basis points year-over-year, up to 3.8%. We have also seen rising cost of funds as we start to see the combined effect of the rising rates of dollar funds on top of the already existent and new increases in soles rates, as shown on slide 18. Cost of funds reached 2.8% in the quarter, up 60 basis points on a quarterly basis and 130 basis points on a yearly basis, the highest increase in the year due to the combined effect of soles and dollars. We continue to have the best loan-to-deposit ratio among peers at 98% as of September, versus a system average of 101% as we are preparing to repay the around $450 million bond, which is almost entirely swapped to soles in January next year.

On slide 19, we have a healthy risk profile with increasing levels of cost of risk in line with the shift in loan mix. Cost of risk in the quarter was 1.9% getting closer to pre-COVID levels of around 2%, mainly due to the recovery in the retail portfolio, which has reached a cost of risk of 3.1%. The NPL coverage ratio of Stage 3 loans at 182% is still above pre-COVID levels of 158%, and this is mainly related to the coverage ratio of retail loans, which stands at 232%, well above the 179% pre-COVID.

On slide 20, we have included a new quarterly evolution of provisions and cost of risk to help better understand the longer trends after and pre-COVID. During the last month, we've seen a slight deterioration in the payment behavior of consumer clients, especially in credit cards and personal loans, which is not yet clearly reflected in the current cost of risk due to the still high coverage ratio but which will start to impact cost of risk in the coming quarters bringing it up to pre-COVID levels and maybe even slightly above that, given the current macro scenario and sustained high inflation.

Now let's move to the third key message on slide 22 of this presentation. Our digital indicators have started to stabilize as more and more people return to normal behaviors thanks to the end of the state of emergency this month. Still, there is a way to go in moving these indicators further. As of September, digital customers reached 70% of our customers who interact with the bank during the last 30 days, up seven points in the past year. Digital acquisitions reached 53%, up 14 points from last year and digital sales reached 64% in September, increasing 13 points in the last year.

We have continued to see an important number of new digital accounts being opened for both individuals and businesses. As of the end of September, 61% of new retail savings accounts were opened digitally, while 93% of new business accounts were opened digitally. NPS for digital customers continues its path to become a top NPS in the next years reaching 46 points this quarter and stable versus previous periods. Insurance digital indicators also show positive developments, with SOAT insurance at 80% and Vida cash life premiums, a digital product, is reaching 39% of total premiums.

On slide 24, we continue to see important growth in our customer base of 17% in retail, 29% in digital retail customers, and 19% in commercial banking customers, reaching more than 5 million as of the end of September.

On slides 26 and 27, we are showing first good news with another quarter of strong results of the investment portfolio of insurance, with the return on the investment portfolio at 7.9% in the quarter, still above average historical levels. On the wealth management front, on slide 27, we have seen a smaller negative impact on mark to market of the investment portfolio during this quarter which has helped to improve bottom-line results but remains in negative territory, strongly impacting the nine-month results of Inteligo so far.

Moving on to payments on slide 29, we are showing the continuous strong growth in number of merchants and transactional volumes. Merchants increased 16% in the quarter and 65% on a yearly basis, reaching more than 900,000. Transactional volumes grew 11% in the quarter and 41% year-over-year. Moreover, e-commerce transactions are gaining share within our transactional volumes, reaching 18% as of the end of September.

Revenues continue to grow nicely, 5% in the quarter and 9% year-over-year, supported by the increase in the transactional volumes and merchants. In the short term, we are working to accelerate the growth of our payment ecosystem by having our assets work together towards a common strategy. We will focus on increasing transactional volumes offering merchants additional services such as electronic bills, inventory management, and cash advances, continue to pilot loans to merchants, and use Izipay as a distribution network for Interbank products as well as a source of float.

On slide 30 and 31, Plin and Tunki continue with their accelerated growth. Plin reached 9 million users as of the end of October, with Interbank participation as main bank account still above 40%, and Tunki users reached 2.3 million. The number of merchants continued to increase as well or 95% year-over-year for Plin and two times for Tunki. The number of transactions has seen an acceleration in the past two quarters. This quarter, even more, reaching a 34% growth on a quarterly basis for Plin and 43% for Tunki. Only in the month of October, Plin has grown 13%, and Tunki 16%, consolidating the quarterly trends.

We are currently working on getting ready for March 2023 when Plin and Yape will become interoperable, thus also Tunki. This is an important development for financial inclusion in the country, which the Central Bank has encouraged and which should help to bring more people and merchants into the financial system, reducing cash which continues to be important in the country.

On slide 33, moving on to our sustainability strategy, we have continued to build upon our focus areas. Our efforts in the last 12 months have allowed us to improve our Corporate Sustainability Assessment score this year, reaching 62 points, an improvement of nine points, which reflects improvements in all the three areas or environmental, social and governance, and economic areas.

Before ending the presentation, let me now move to the comparison with guidance for these first nine months of the year. Capital ratios remain at sound level, with total capital ratio of 15% and core equity tier 1 ratio above 11%. Third-quarter stands above and in line with guidance.

Second, a continued path to recovery in core profitability with IFS ROE to be above 16%. In the nine months, reported ROE was 18%, above our guidance, but was 15% when excluding this quarter one-off. The gap in ROE for this year is due to the negative impact on the investment portfolio at Inteligo, as ROE for banking, insurance, and payments are all strong and above their single target ROEs in the first nine months of the year. Including the mark to market losses ROE for IFS will be in line with guidance.

In terms of loans growth, as of September, total loans grew 15% when excluding Reactiva and is still above guidance, while consumer loans grew 21%. But as mentioned during this call, we expect growth to continue to moderate in the last quarter as well and to be in line with guidance. The recovery of NIM is taking place a little bit faster than expected, with nine months NIM already at 4.9% and third-quarter NIM at 5.2%, which indicates that we will most likely end up the year above guidance.

In terms of cost of risk, the nine-month cost of risk is at 1.7%, with a third-quarter cost of risk at 1.9% trending up. Cost of risk for year-end will be in line or slightly above guidance. We will continue with our focus on efficiency, and guidance for efficiency ratio was between 35% and 37%. The cumulative nine-month efficiency ratio was 36.6%, but was 38.4% when excluding the one-off of this quarter. This number is slightly above the upper range of the guidance due to the negative impact on revenues from the investment portfolio of the wealth management segment. Taking out that effect, again, we would be in line with guidance and with one of the best efficiency ratios in the region. Moreover, we have seen a nice improvement in the efficiency ratio of IFS and the bank in this last quarter.

On slide 35, let me recap the six key messages of this presentation. First, we are operating in a cloudy macro outlook. Second, we had another strong quarter in our core banking business with some moderation in growth. Third, we continue to work on our two-tier digital strategy showing positive developments in our digital indicators to foster growth at IFS. Fourth, strong investment in results in insurance but still impacted, to a lower extent, in wealth management. Fifth, we continue to see strong growth in payments. And finally, we continue making progress in our sustainability efforts.

Thank you very much. Now we welcome any questions you might have.

QUESTION AND ANSWER

Operator
Thank you. And at this time, we will open the floor for questions. First, we will take the questions from the conference call and then the webcast questions. If you would like to ask a question, please press “*” “1” on your touchtone phone now. Questions will be taken in the order that they are received. If at any time you would like to remove yourself from the questioning queue, press “*” “2”. Again, to ask a question, please press “*” “1”.

For the webcast viewers, simply type your question in the box and click Submit Question. We will pause momentarily to compile a list of questioners. And our first question today will come from Juan Recalde with Scotiabank. Please go ahead.

Juan Recalde
Hi, good morning, and thank you for taking my question. I have two questions. First is related to the portfolio, loan portfolio mix. So we have seen the exposure to retail loans increase, mainly driven by credit cards and personal loans. So the question there is, how should we think about this mix going forward into 2023? Should retail loans continue growing, driven by credit cards and personal loans, or should we expect a change there?

And the second question is related to payments. So I noticed that the revenue growth was 9% year on year, the revenues on the payments subsidiary, which was materially lower than the growth in the number of merchants and the transaction volume. So I was wondering there what is driving the difference between the revenue growth and the transaction growth. Thank you.

Luis Felipe Castellanos
Well, thanks very much for your question. Let me pass it on. For number one, I’m going to pass it on to Michela so she can elaborate a little bit about how we are seeing the future in our loan book. And then, for number two, I will pass it on to Carlos Tori. Let’s start with Michela, please.

Michela Casassa
Yes, hello, and thank you for your question. The mix that you see today, the weight of consumer and personal loans within the total portfolio, is something that should be if you want, relatively stable during next year. The only thing that will continue to change a little bit is that as Reactiva loans will fade away during next year, we expect like most of Reactiva loans to be out of the book by year end 2023, just a very small portion of SMEs will be there. The overall retail will have a little bit more of participation in the book as it gains weight versus the Reactiva portion. But what we are planning to do next year, of course depending on what happens with the market, is to have like a balanced growth between retail and the commercial portfolio.

Luis Felipe Castellanos
Thank you and now, Carlos, please?

Carlos Tori
So the merchants are already penetrated. They are already customers and part of the market. Most of the growth in new merchants comes from smaller merchants, which obviously have lower and smaller transactions. So, you will see a larger increase in the number of merchants than the actual income from transactions.

I still believe that this longtail is still very good to go and follow it because it increases the overall transactions and the use of credit cards and wallets. So, in general, it’s good business, but the margins are much smaller, and the growth, obviously, the impact on the overall numbers is much smaller as well.

Luis Felipe Castellanos
Thank you, Carlos.

Juan Recalde
Understood. Thank you for the comments.

Operator
And once again, if you would like to ask a question, please press “*” “1”. And at this time, we will take the webcast questions. I would like to turn the conference over to Rafael with InspIR Group.

Rafael Borja
Thank you, operator. We have some questions from the webcast. The first question is coming from Greg Mitchell from AVP Ventures. Can you discuss the ways in which the success of the Izipay acquisition inform your M&A strategy going forward? What is your future M&A strategy, especially in payments?

Luis Felipe Castellanos
Okay, let me take that. Thanks, Greg, for your question. Our M&A strategy at IFS has been as you know, successful not only on this payments instance but also in previous opportunities; for example, the Sura Insurance acquisition was very successful, and the Izipay obviously was something that we were looking at for some time, and finally, we were able to materialize it. It is an opportunistic M&A strategy, basically.

We, as you know, look at everything related to financial services or complementary businesses in Peru because we have a very broad platform of services. So, we're always looking to see what complements our value proposition, so it doesn’t change. We are happy that the early results are as we expected on an asset that we already own, 50%. So, it doesn’t change.

We will continue to be an active player, very disciplined in terms of the things we do. We are very disciplined in not only in analysis but also in valuation, and that’s basically it. I think the payments avenue will entail maybe looking abroad probably more intensely than what we looked before because of the nature of that business probably there are more opportunities to look internationally. However, that’s at a very early stage still, so we are in the process of doing lots of analysis around it. I hope I answered your question.

Rafael Borja
Thank you. There’s another question from Maria Jose Quinones from Seminario SAB. What exactly does revaluation mean in the Izipay operation?

Luis Felipe Castellanos
Okay. I’m going to pass it on to Michela, but basically, it’s related to -- we already own 50% of Izipay at Interbank. So, what we’ve done is the other 50% that we acquired was done from IFS. So, this revaluation has to do with the existing 50% that we had at Interbank that is being taken in the accounting at the level at which we acquired the assets. So, Michela, can give us a little bit more detail on exactly what is going on there.

Michela Casassa
Yes, hello, just to give some more information about that, we acquired through IFS, the remaining 50% of Izipay. The original 50% that was in our possession was at Interbank. So basically, what happens is that now there is a change in control because IFS now owns the majority of Izipay, and IFRS accounting standards require you to reevaluate, let's say to bring the book value that you had on the banking assets to the new value or the market value that was defined with the M&A transaction. And that increase in value, that revaluation, actually is accounted at IFS level. It does not impact Interbank at all.

So basically, what we've seen this month is the revaluation of the 50% that is in possession of the bank, bringing it from book value to the new market value and booking it at IFS level. That additional value, of course, is reflecting on the other side of assets in a mix of goodwill and other assets, which include the value of the brand Izi itself and also of the client base and the relationship that we already have with clients. So basically, this is what has been accounted for and is impacting positively both net worth at IFS but also assets on the other side.

Rafael Borja
We have another question from Anand Bhavnani from White Oak Capital. The good work in banking and insurance has been negated by losses in wealth management. Do you think things need to be done differently in wealth management? If yes, please elaborate on it.

The second question is, given the opposite performance in the investment in insurance portfolio as compared to wealth management. Can you explain the difference in investment approach in these two?

Luis Felipe Castellanos
Okay. Great. Thanks Anand for your question. Let's see. The negative impact on Inteligo has been related to the investment portfolio. So let's break this into two parts. First, how is the operation going? And we are very happy with the way the operation is going. We continue to have a good relationship with our customers, assets under management go with some volatility because of market conditions; however, we continue to bring in new customers on a very efficient operation. And that's obviously a very positive contributor in our results.

Then, we have the impact of the investment portfolio itself, which is kind of isolated from the operation itself. So, as you know, the market conditions have been very volatile; numbers last quarter were negative for the market overall, similar to what happened in the previous quarter. So, what we've done is a deep review of the investments we have there.

And as I mentioned in the previous call, we have been investing in these types of assets for many years. During the last ten years, the results have been, on average, +10%. This year has been kind of an exception because of market conditions, but we feel very confident that the names that we have there are solid and will recover when the market volatility passes by.

What is happening in Inteligo, as opposed to Interseguro, is basically obviously the profile of the investments are different; one is an insurance company related to long-term investments for annuities, basically mainly fixed income to be able to match the assets with the liabilities. The proprietary book of Inteligo has a different profile, probably a little more shorter-term. However, the way that the accounting is working is different in both books. I also explained this during the last call.

In Inteligo, almost 80% of the results are going through the P&L directly as opposed to going to equity, similar to what is happening at Interbank as well and the deterioration of certain fixed income portfolios are flowing through equity, so you don't see it directly in the P&L. At Inteligo 80% go through the P&L. So basically, what you see is what you get, that flows through equity by what's going on in the P&L.

In the other companies, other financial companies, the accounting works such as the impact goes directly into equity, so you don't see that flowing through the P&L as what's happening in Inteligo. And the performance on the investment results, mostly in Inteligo, are flowing there, so you are seeing that volatility, and we do expect that as market conditions level out, this will recover, and we are confident that we will get back to the previous levels of profitability that Inteligo was used to provide to IFS.

Rafael Borja
Thank you. We have another question from Daniel Mora from Credicorp Capital. What are the expectations of the asset quality indicators going forward given that IFS is going strongly in credit cards but also considering a challenging scenario in 2023? Do you expect to see a material deterioration of asset quality indicators in the upcoming quarters?

The second question is, the NIM is going in the right direction and is getting closer to the pre-pandemic levels, when do you think that IFS can reach 2019 levels of NIM given the growth appetite in consumer loans, the increasing interest rate, and cost of funding?

Luis Felipe Castellanos
Okay. Let me try on the first one, and then I'll pass it on to Michela so she can elaborate. But basically, yes, let's see, we are growing in consumer financing. Obviously, this brings higher risk, and we are entering into an uncertain economic environment for Peru. We do expect that we are going to have a deterioration in the portfolio, as is natural, because we don't see the economy growing that much next year. That will have an impact on the consumer, and also inflation is also having a toll on consumers itself; even though the expectations are that inflation is going to start to normalize at some point mid-next year still, these high levels of inflation have been something that we have not seen affecting the Peruvian consumer before.

So we do expect a deterioration of the risk indicators in the portfolio. We have already taken measures to tighten our underwriting agreements. However, due to mix and due to this deterioration of a slowing economy, we do expect the numbers of risk levels to go up. And now, let me pass it on to Michela to see if she wants to complement something on this part of the question and then we'll go over the NIM question itself.

Michela Casassa
Thanks, Luis Felipe. I think you mentioned it already. The only thing I would add is that this 2022 has seen an extraordinary low level of cost of risk still, okay? This -- because, I mean, we have been in the process of updating and fine-tuning the models after the impacts of the pandemic. So basically, just to give you an example, we have introduced a new variable to the model, which is inflation, because previously, it was not that impactful on predicting the expected loss because inflation in Peru was always at low levels.

So we've been in this process of fine-tuning the variables, the models, but still, the coverage has been very high, so this has helped to keep the cost of risk low.

What we are seeing, and we expect, I think to even show some of this impact already in the fourth quarter is that we are returning to pre-COVID levels. So basically, we should expect that next year cost of risk -- we are still not giving guidance because we are finalizing the numbers, but it should be closer to pre-COVID levels, so above 2% and even above that because when compared to 2019 we have a negative impact of the sustained inflation.

Now moving onto NIM, I mean, we have seen a strong pickup in NIM, in the past quarter was even stronger. The increase in NIM this quarter was milder because we start to see cost of funds picking up more rapidly because of adding up the increase in dollar rates on top of the soles rates, and what we expect for 2023 is a NIM that continues to gradually improve. Of course, it's going to be milder because, again, we will continue to see this impact of cost of funding as the rates will continue to be high and will continue to impact the cost of funds.

We do not expect to reach 2019 levels in 2023 because even if the portfolio mix will be similar to 2019, there have been some dynamics that have decreased some average yield on loans, I would say particularly in a part of the consumer loan financing and in the corporate loan financing. So, we are not foreseeing I mean, we foresee to continue to improve NIM but not to match the 2019 during 2023.

Rafael Borja
Thank you. We have a couple of questions coming from Alonso Aramburu from BTG Pactual. Can you please comment on what's driving the strong growth of premiums at Interseguro? The second one is can also comment on loan and deposit growth expectation for 2023 and how much of the growth of deposits this quarter is related to the recent pension fund withdrawals?

Luis Felipe Castellanos
Okay, thanks Alonso for your question. On Interseguro, let me pass it on to Gonzalo, and then the second part of the question I'm going to pass it on to Michela, although I don't know if we are ready to provide guidance, but certainly, she can give you some insights on that. So Gonzalo, please go ahead.

Gonzalo Basadre
Okay. Our growth in premiums is caused by growth in several lines of business. First, individual life is growing very strongly compared to last year. We've seen an increased interest from people in buying insurance, especially after the pandemic; then the bancassurance is also growing very fast, and finally, all our digital products are also growing very fast. That includes SOAT mandatory car insurance, travel insurance, individual life also through our digital channel.

Michela Casassa
Okay. Let me take the other part, the loans, and deposits for 2023. Alonso, we are not ready to give guidance, okay? But what we are building up now in our strategic planning and budget process is, I mean, a continuous growth in both loans and deposits, trying to gain market share during next year with some moderation, of course, to what we've seen this year, especially because the first half of this year for retail loans was very, very aggressive, okay? So this is -- I think what I can tell you about next year.

And talking specifically about what happened with deposits this quarter, I mean, there is a small impact from private pension funds, but it has not only been that. To be sincere, we have seen a strong increase in all the different product lines of deposits. We have been doing some changes. We were trying to, let's say, resist as much as possible with increases in rates. So we've done also a number of commercial measures, and this together is the main reason of what we are seeing in the quarterly increase in deposits.

And this has come to a big extent in soles deposits, is very good for our loan to deposit ratio because, I mean, not only we have the best loan to deposit ratio overall but also when you look at the split between the loan to deposit ratio in soles and in dollars, our soles deposit ratio stands below 120% and is by far the lowest loan to deposit ratio among the top four banks in the country.

Rafael Borja
Thank you. We have a couple of follow-up questions coming from Daniel Mora from Credicorp Capital. We saw a strong performance of fees coming from higher credit cards, banking services, and Izipay. Is this performance sustainable going forward, given the economic deceleration in the upcoming quarters?

And the second question is, what are the expectations for Inteligo in the upcoming quarters and overall 2023? Do you expect to see a recovery or a better performance, or do you still feel that numbers could be pressured in the short term? What has been the performance in 4Q ‘22 so far?

Luis Felipe Castellanos
Okay, thank you very much. Let me start by the last question. We do expect a recovery of Inteligo, and it will be related obviously as mentioned. The operation is going well as long as the market recovers, which we expect hopefully that the worst has been passed by. However, we are seeing a very volatile market environment, but we do expect to Inteligo to recover in line with what we expect around the market. As the market has behaved well in the beginning of the fourth quarter, obviously we’ve seen some recovery, however extremely volatile. Yesterday was a tough day for markets. Today is a very good day for markets. So it’s going to be related to how the market evolves. I don’t know, Bruno, if you want to comment something else around that?

Bruno Ferreccio
Yes. I just want to add, you already touched on this, but underlying trends on the wealth management side have been quite solid. Despite market volatility and performance of client portfolios, usually, these types of markets take away from some of the investment activity from clients but solid trends in NIM and loans. So the underlying business has been doing quite well, and we would expect that to get even better going forward. So the other part you touched upon, which is it’s going to be kind of related to the market but as we get further along on the Fed tightening cycle, we would expect volatility to come down and that to be a relative positive compared to what we’ve seen in the last three quarters.

Luis Felipe Castellanos

Okay, thank you, Bruno. And then on the other part of the question regarding the payments evolution, Carlos?

Carlos Tori
So even if the GDP doesn’t grow as much as it has been growing for consumption, there’s a large shift from cash to credit cards or to debit cards as well, and we see a lot more transactions. So we would expect that business to continue to grow. There’s a large shift from cash, and a lot today, there’s more transactions in cash than non-cash, so still a lot of opportunity in the market.

Luis Catellanos
Okay. Great. Thank you.

Rafael Borja
Thank you. We have a couple of follow-up questions from White Oak Capital. The first one is, at Inteligo, what percentage of client assets under management is held on their own balance sheet as assets? And the second one is, what percentage of the mark-to-market impact in Inteligo is coming from equity investments?

Luis Felipe Castellanos
Okay, thank you. Thank you for the question. On the first one, if I understand correctly, none basically, the AUM of the clients are not booked in the balance sheet of Inteligo other than deposits that we hold for them. But the investments are off balance sheet, and maybe Bruno can complement this and also can help me with the second part of the question.

Bruno Ferreccio
Yes, that's correct. So client AUMs are off balance sheet, and then we have currently around $1 billion in client deposits under liabilities in the balance sheet. So that's the first part. The second part I think, was related to percentages of losses. So I would it's approximately 35% of the mark-to-market impact coming due to equity exposure.

Rafael Borja
At this time, I'm showing no further questions. I would like you to call over to the operator.

Operator
And we do have one question here, and that will come from Yuri Fernandes with JPMorgan. Please go ahead.

Yuri Fernandes
Hi, guys. Thank you for the opportunity, and congrats on the quarter. It is regarding Izipay. I have one on dividends, like which earnings do you consider for your dividend payments? I guess a recurring one, right, given this is non-cash but just asking on this. And also, regarding the capital position because I understand you generate a lot of goodwill here, and I don't see an impact on the bank. I believe this may be related to Izipay, as Michela mentioned moving to the holding, not to the bank, but just trying to understand like if this is goodwill generation should impact your Basel ratios.

And if I may, a last one regarding insurance - we see a very good premium growth, as you also discuss it, but we see able big decrease in technical reserves. So I would like to understand a little bit more. It seems to be related to annuities, especially on the time accrual of annuities. So just trying to understand this difference between a lot of premium growth but technical reserves from insurance not growing, actually decreasing versus last year. Thank you.

Luis Felipe Castellanos
Okay, Yuri, thanks very much for your question. Let me pass it on to Michela for one and two and Gonzalo could help us with number three.

Michela Casassa
Good morning, Yuri. It's exactly as you mentioned. I mean, there would be no impact on dividends from the Izipay revaluation, the one-off impact that we see this quarter, as this is only at IFS level, and is an accounting impact. This does not impact the bank thus does not impact the capital of the bank and the capital ratios of the bank. So basically, there is no Basel impact on capital coming from Izipay. Gonzalo?

Gonzalo Basadre
Yes. Regarding reserves of annuities, in reality, reserves are increasing in annuities. Our business is growing, and reserves are increasing. I don't see why you mentioned that the reserves are decreasing.

Yuri Fernandes
It's here on the financial statement, when you have the complete financial statement, you have a breakdown of technical reserves by product, and it was, I guess, 11 billion soles, and now it is like 8 billion, 9 billion on the annuities side, and there was like a 2 billion soles decrease because of time evaluation. So this is the number. Maybe I'm not looking to the right number, but it's on the complete financial statements when you have the breakdown of technical reserves.

Gonzalo Basadre
Let me get back to you because I don't see how it's being reported. But let me tell you that reserves are increasing. So, it's just may be a matter of how they are being registered in the report.

Yuri Fernandes
Okay, we can follow up later. No worries guys, thank you very much.

Operator
And this will conclude our question-and-answer session. I'd like to turn the conference back over to Mrs. Casassa for any closing remarks.

CONCLUSION

Michela Casassa
Okay. Thank you, everybody, for joining us today in this conference call and we'll see each other again in our fourth quarter results next year. Bye bye, thanks.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.