Intercorp Financial Services

3Q21 Earnings

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CORPORATE PARTICIPANTS

Rafael Borja – *Director, INSPIR Group*

Luis Felipe Castellanos – *Chief Executive Officer, Intercorp Financial Services*

Michela Casassa – *Chief Financial Officer, Intercorp Financial Services*

PRESENTATION

Operator
Good morning and welcome to Intercorp Financial Services Third Quarter 2021 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. 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 question and answer 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. Good morning, everyone. On today's call, Intercorp Financial Services will discuss its third quarter 2021 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; and Mr. Bruno Ferreccio, Chief Executive Officer of Inteligo. They will be discussing the results that were distributed by the company yesterday, November 9.

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, the statements made are based on several assumptions or 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 or 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, Rafael. Good morning, everyone. Welcome to our third quarter 2021 earnings call. We appreciate you taking the time to attend our call. I hope that you and your families remain safe and healthy.

Let me start by giving you a brief overview of the health and macro situation in Peru. On the sanitary front, Peru was able to speed up its vaccination process. As a result, currently half of the population, or 16 million individuals, are fully vaccinated. Restrictive measures have significantly softened across the country, and although there has been a slight increase in the number of COVID cases recently, a third wave is not yet in the horizon. We are hopeful that 2022 will take us back to a new normality, very much like the one we had before the pandemic.

Moving on, accumulated GDP growth levels as of the month of August showed a strong rebound.

However, estimates for GDP for the rest of the year remain close to zero. As a result, we foresee around 12% full year GDP growth in 2021 mainly explained by a rebound activity versus the previous year and despite our forecasted deceleration of the last quarter of the year.

In the political front, we continue to see volatility. Political challenges remain high as the executive and legislative branches continue to establish themselves. The consumer and business confidence indicators remain at low levels. The political front continues to be an uncertainty factor and this might still be the case in the coming months. Nevertheless, under this challenging environment, IFS continues to prove strength and resilience. As you will see later during the presentation, our results continue to improve based on the recovery path set after the effects of the pandemic.

Our clear strategic focus has taken IFS to reach another solid quarter, with strong results in all of our operating segments. We strongly believe that our people, our management team, our ability to adapt to changes and our digital-oriented strategy are our strength and the basis that will allow us to grow profitably in the future. We will continue to grow in a sustainable way in order to fulfill our purpose to empower all Peruvians to achieve financial wellbeing.

Now, I will pass it on to Michela to update you on the results of this quarter and with a detailed review of our operations. Thank you very much.

Michela Casassa
Thank you, Luis Felipe. Good morning and welcome everyone to Intercorp Financial Services' third quarter 2021 earnings call. This time, we have divided the presentation in four parts, which include financial highlights, key messages, results by segments, and trends and takeaways at the end.

I will start with a brief summary of financial highlights on slides 3 to 5. The main highlights are that Intercorp Financial Services had record earnings of S/ 551 million in the third quarter, with a return on adjusted equity of 23.1%. Strong business performance, reviewed 2021 guidance for ROE and cost of risk. The nine months cumulative earnings of S/ 1,535 million with a 22% ROE and 2.3% return on assets. Revenues are growing almost 18% in the nine months, with efficiency ratio at 32%. We have a growing customer base thanks to digital adoption and solid capitalization and strong liquidity at all operating companies.

At Interbank, earnings of S/ 299 million with a return on equity of 18.6%, extending its positive run this year. Retail loans grew 3.6% in the quarter, gaining 10 basis points market share to 18.8%. And the market share in retail deposits is at an all-time high at 15.2%. We have a sequential improvement in NIM, up 10 basis points this quarter, and the credit risk profile is better than pre-COVID levels. Recovery in expenses is driven by increased activity and digital investments.

At Interseguro, the quarterly results are affected by lower other income and higher technical reserves. Gross premiums plus collections grew almost 17% on a quarterly basis, and 90% on a yearly basis. Regular annuities are leading this beat versus pre-COVID levels. We have a S/ 13 billion investment portfolio, with a return on the portfolio of 6.7% in the third quarter. We continue to be the market leader in annuities, with a 29.7% share year-to-date.

At Inteligo, profit surged for mark to market on investments. We have a significant growth in revenues, driven by other income, which has been boosted by mark to market on the investment portfolio. We also have very good core operating trends, with assets under management and deposits growing 4.2% in the quarter and 22.8% year-over-year, and a solid contribution to profitability and efficiency of IFS. Top line has continued to be strong, driving the year-to-date growth to 18% when compared with 2020. This is mainly thanks to a recovery in most revenue lines, including net interest income, fees and other income.

This recovery has taken place in the core businesses of all three operating companies. But it is important to notice that Interseguro and Inteligo have contributed to this strong growth in the cumulative revenues, with extraordinary results in investments which will most likely not be repeated in the future.

Now I will focus on the key messages we would like you to take home from this call on slide 7. There are six key messages which we will cover in detail in the following slides. First, the macro fundamentals continue to be a point of concern, as GDP growth is decelerating. Second, we have a strong balance sheet, with capital and liquidity levels substantially better when compared to pre-COVID levels. Third, we have continued to see a strong recovery in our core indicators in all three operating companies. Fourth, the digital adoption trends continue to support IFS strategy, which translates into growth of clients and business. Fifth, the credit risk profile of the portfolio continues to be below pre-COVID levels. And the last is that we continue our focus on efficiency and branch rationalization.

On slide 8, we can see that economic activity in Peru has started to decelerate after a very strong months of recovery when compared to 2020. Political uncertainty has started to impact growth, especially in terms of private investment, which is one of the engines of the economy. Central Bank has still not updated its 3.4% growth estimate for 2022. But other estimates indicate a 1.5% to 2% growth of GDP, with a flat to decreasing private investment, a deceleration in public investment and slow growth in private and public consumption.

Expectations on economic activity have been decreasing in the past month due to political uncertainty and turned to negative territory, but have seen a slight improvement when speaking of the next 12 months when compared to the previous report. We have experienced an important increase in rates, first in the medium term rates and lately in the central bank short term reference rate of 125 basis points, bringing up the current soles reference rate to 1.5%. More rising rates are expected in the near future.

On slide 9, we see exchange rate and inflation still impacted by political uncertainty but also by international pressures of a stronger dollar and high prices, as evidenced by the comparison with Latam peers. On the exchange rate front, some positive developments in the local environment helped the sol/dollar level to have a bit of a correction in the past weeks, while inflation surges worldwide, as lockdowns end, pushed also inflation in Peru. However, the inflation in Peru is slightly below its peers.

On slides 10 to 11, the second message relates to capital and liquidity. On slide 10, we continue to have a solid capital position at all three operating companies of IFS. Our total capital ratio as of the end of June was 16.3% at Interbank compared to 15.1% of the system and the minimum 8.5% required by the superintendency. Our core equity Tier 1 ratio improved 50 basis points in the quarter, up to 12%. At Interseguro, our solvency ratio stands at almost 160%, well above the 100% required, while at Inteligo our capitalization ratio is almost 24%, again well above the 8% required.

On page 11, we continue to register high levels of liquidity. The third quarter has seen an improvement in liquidity in the financial system, and Interbank has been able to grow total deposits by 3% on a quarterly basis, and most importantly, to reach an all-time high market share in retail deposits of 15.2%, a 70 basis points increase in the quarter. The loan to deposit ratio is at 90%, well below the ratios of our main peers and the system average and below pre-COVID levels. We continue to have ample liquid assets, with almost S/ 27 billion at Interbank, out of which more than S/ 17 billion are cash and equivalents and have around S/ 1 billion at IFS standalone, out of which around S/ 300 million are cash and equivalents.

On slide 12, monthly operating trends at IFS have continued to show positive developments in activity. At Interbank, debit and credit cards turnover reached 43% above pre-COVID levels. New disbursements of payroll deduction loans to the public sector employees are growing 24% versus pre-COVID levels, while mortgages have started to recover in the past couple of months after a slowdown in growth in July and August due to the increase in rates, and are now growing 3% versus pre-COVID levels.

Total fees for Interbank are at 85% of pre-COVID levels, or 97%, when excluding the impact of the restriction to charge late payment fees, which came with the cut in rates legislation. Commercial banking fees have recovered faster than retail fees, mainly thanks to new business coming from the aggressive Reactiva loan strategy. But we have also seen a nice recovery in retail fees linked to the strong credit and debit card turnover volumes. In the case of Interseguro and Inteligo, the recovery was much stronger and faster, with gross premiums in September this year at almost 170% versus pre-COVID levels and assets under management at plus 23%.

On slide 13, we are showing the quarterly evolution of total revenues for IFS. We have seen another strong quarter in terms of total revenues, which drives a 17.8% increase in revenue during the first nine months of the year. This growth is mainly coming from first, the stabilization of Interbank revenues, which are relatively flat in the quarter but growing 2.7% cumulative year-over-year, strong recovery in revenues coming from other income from investments but also from other sources of revenues at Interseguro and Inteligo. Inteligo has seen another strong quarter in terms of revenues, thanks to core business and mark to market. But Interseguro has been impacted this quarter by a lower level of other income and higher technical reserves due to inflation and mark to market, and last, a positive contribution of mark to market at the holding level.

The diversification of IFS business continues to play an important role in the yearly recovery of revenues. The banking business continues to recover in a more gradual way, mainly due to the pressure in net interest income and NIM coming from low yield Reactiva loans, excess cash, portfolio mix with a smaller contribution of credit cards and also the hit from the late payment fees, as previously mentioned.

We are including a new set of information on slide 14 to show the recovery in the yield from the loan book of the bank as well as in the risk adjusted NIM. Yield on loans reached 7.9% in the quarter, up 20 basis points versus the second quarter, while yield after risk is improving 80 basis points in the quarter and 240 basis points year-over-year, and improving 400 basis points in the cumulated figures as of September. In the same way, NIM is improving 10 basis points in the quarter, but risk adjusted NIM is improving much faster. NIM after provisions reached 3.3% in the quarter, up 50 basis points in the quarter and 160 basis points in the year. We expect this trend to continue improving in the following months.

Moving on to the fourth message on slide 15, our digital KPIs continue to improve. Digital users as of September are 79% of our customers who interacted with the bank in the last 30 days, up 18 points in the past two years. One hundred percent digital customers, who are clients that do not use branches or contact center any longer and who use digital channels plus ATM and correspondent agents in the last 30 days only for cash in and cash out, have reached 58% in September, up 26 points from September 2019. Digital sales have also performed well at Interbank, have reached 49% in September and at Interseguro SOAT digital sales reach 79%, both increasing sharply in the last two years. We have continued to see an important number of new digital accounts being opened both for individuals and businesses. As of the end of September 55% of new retail savings accounts were opened digitally, while 91% of new business accounts are opened digitally.

On slide 16, we have reached more than 4.3 million retail customers and 122,000 businesses. Our retail client base has increased 14% CAGR in the past two years, while our commercial client base has increased 36%. Our 100% retail digital customers have grown at a CAGR of 55% in the past two years, reaching almost 1.5 million customers. New digital client acquisition of retail customers reached 40%, compared to 21% two years ago.

On slide 17, PLIN, the P2P feature among multiple banks operating with cell phone numbers, is already active in more than 5.1 million users as of the end of October, 42% out of which used Interbank as their key account. Tunki, our 100% digital solution for payments, which was relaunched in February last year, has reached 1.5 million users as of the end of October. Moreover, both payment initiatives have aggressively started to increase their number of merchants. On one side, Tunki has reached 261,000 merchants as of the end of October, and on the other side Interbank alone for PLIN has affiliated 624,000 merchants.

The fifth key message refers to the low level of provisions registered again this quarter, with cost of risk at 1.1 below pre-COVID level. The current credit risk profile of the bank's portfolio has stabilized and is less risky than our target risk profile, which is closer to pre-COVID levels. Of course, this is positively impacting cost of risk and provisions, but on the other hand, it's negatively impacting revenue generation, as mentioned in previous slides.

There are three positive trends impacting risk profile. On slide 18, the first positive trend is that outstanding rescheduled loans have continued to decrease. As of September outstanding rescheduled loans were S/ 7 billion or 17% of the total loan book. This number represents a 45% decrease versus the peak of June last year. This is true for both retail and commercial portfolios. Moreover, the number of total clients rescheduled has also decreased, as the new inflow has been marginal during this last month. On the other hand, the payment behavior continues to be solid.

On slide 19, we are showing for the first time the quarterly evolution of Reactiva loans. As of September we have S/ 5.5 billion in Reactiva loans, down 18% versus the peak in September last year. As you can see from the graph, there have been prepayments and amortization in the corporate and midsized companies decreasing Reactiva loans by 53% and 22%, respectively year-over-year. As an additional 12 month rescheduling period was approved by the government to help especially SMEs, we do not see a major reduction in that segment. Moreover, extended loans reached 32% of the Reactiva loans as of the end of September, and these extensions are allowed until year end. So, we might see this figure increasing a bit more.

On slide 20, the third positive trend is the low level of provisions. Cost of risk for the quarter was extraordinarily low, at 1.1%, below the 1.7% of the previous quarter and below the pre-COVID level of 2.2% for the full year 2019, mainly due to the low cost of risk in retail, which today has a lower contribution coming from credit cards, which is the product with the higher cost of risk in the portfolio. This is reflected in the low cost of risk of retail in the quarter, which was 1.7%, down from 3.2% in the second quarter and below the 4% full year 2019 pre-COVID level.

Commercial banking continues to have low levels of cost of risk, thanks to our small participation in the SME segment, and was 0.5 in the quarter. The NPL coverage for the bank as of September is almost at 170% and for retail loans is pretty high, at 220%. Our stock of provisions as of the end of September represents around 6.4% of our total loans, excluding Reactiva guaranteed portion of loans.

Finally, the last key message on slide 21 refers to the disciplined and proactive management of cost, IFS has pursued before and after COVID started. During the first nine months of 2021 we have registered a very low efficiency ratio of 32% at IFS, below our guidance of 35%-37%, mainly thanks to the positive impact of revenues previously described, which has contributed to our operating leverage, as the cumulative 18% increase in revenues is in line with cumulative increase in costs. This quarter, we have continued to see a recovery of expenses driven by banking activity when compared to the previous year.

It is important to remember that during 2020 IFS was one of the few financial services institutions in the region which was able to execute an aggressive cost reduction program, which ended up reducing the total cost base of IFS by 5% for the full year and improving the efficiency ratio in such a challenging environment. At Interbank, the efficiency ratio is 42.9% for the first nine months of the year, above the 38% registered last year, as expenses have increased 15% in line with our expectation, as reflected in our guidance.

The increasing costs at Interbank is mainly due to three reasons. First, a 17.8% increase in technology costs and new ventures, which include the technology expenses for our digital transformation as well as new investments in payments and our venture with Rappi. Second, an 8% increase in personnel costs, which is mainly coming from the increase in mandatory employee profit sharing in line with the improvement of the local GAAP earnings. And third, a 76% increase in variable cost related mainly to credit cards, in line with the 79% increase in credit and debit cards turnover, which generates fees and financial volumes.

Moreover, we have continued with our branch optimization program started in 2016 and have closed additional 63 branches since the pandemia started, reaching a total reduction in number of branches of 35%, or almost 100 branches from the peak in 2016. Expenses will continue to increase in the last quarter of 2021 when compared to the previous year, driven by the reasons previously explained. Guidance remains at 35%-37% cost to income ratio for the full year for IFS, most likely in the lower end of the range.

Now, let's have a look at some additional indicators by segment on slides 23 to 29. On slide 23, we are showing a recovery in most of our key banking indicators, including a second consecutive quarter of recovery in NIM, which was up 10 basis points in the quarter, with recovery in risk adjusted NIM taking place much faster, or 50 basis points in the quarter, as previously explained. Total fee and other income increased 4.2% in the quarter, mainly driven by the strong FX trading results of the second quarter with fee income recovery and growing 1.9% in the quarter and 8.5% when compared to the same quarter last year. At Interbank, other expenses increased 11% in the quarter and 27% when compared to one year ago, mainly due to the reasons previously explained.

On slide 24, the positive news comes from the accelerated growth in credit cards and other consumer loans, which reached 9.8% in the quarter, driving market share in consumer loans up 50 basis points this quarter. Total retail loans grew 3.6%, resulting in a gain of market share of 10 basis points and grew 5.5% year-over-year. Commercial banking loans were down 3% in the quarter, mainly due to Reactiva. Overall, total loans were flat, both in the quarter and in the year, but grew 2.5% in the quarter and 3.6% year-over-year when excluding Reactiva loan balances.

On slide 25, total deposits increased 3% in the quarter and 9.5% year-over-year, with retail deposits increasing strongly at 11% Q-on-Q and 19% year-over-year, gaining 70 basis points market share in the quarter and 130 basis points in the year to the record 15.2% as of September. Cost of funds increased 10 basis points in the quarter to 1.5%, and is 20 basis points below the previous year. The higher cost of funds is mainly coming from the impact of the increase in rates in the short term institutional deposits.

Moving on to Interseguro on slide 26, gross premiums plus collections grew 17% in the quarter. In this third quarter almost all business lines grew, with regular annuities leading the growth in premiums as a result of better market conditions, while individual life premiums grew due to an improvement in the collection of premiums. Likewise, Interseguro remains the market leader, with a 29.3% market share in this quarter.

On slide 27, the Interseguro investment portfolio reached S/ 12.9 billion, a 2% decrease on a quarterly basis and a 2.2% decrease on a yearly basis. The quarterly and annual decrease was mainly explained by the effect of lower mark to market valuations on the fixed income portfolio and higher cash positions as we rebalance the portfolio. The return on investment portfolio in the third quarter was 6.7%, with a positive contribution from inflation.

Moving on to our wealth management segment on slides 28 and 29, Inteligo's net interest and similar income was S/ 26 million in the third quarter, a decrease of 12% when compared to the second quarter, mainly attributable to a lower asset allocation to fixed income investments within their portfolio. Net interest and similar income increased 4% year-over-year as a consequence of the lower cost of funds caused by large liquidity inflows in non-interest bearing accounts. Fee income was good, and increased 2.8% in the quarter and 25% year-over-year, mainly thanks to an increase in fees from fund management supported by a higher foreign exchange rate.

Inteligo's other income reached S/ 146 million in the third quarter, an increase of S/ 94 million Q-on-Q and S/ 71 million year-over-year, mainly attributable to a strong boost in mark to market valuations on proprietary portfolio investments. Revenue generated by Inteligo for the quarter reached S/ 223 million, increasing 70% in the quarter and almost 60% year-over-year.

On slide 29, Inteligo's assets under management plus deposits had a strong growth during the quarter of 4.2%, driving the yearly growth to 22.8% and reached S/ 28.3 million in September. Earnings of S/ 184 million for this quarter are above the already strong second quarter of S/ 90 million.

On slide 31, we are providing a comparison of our cumulative results with the operating trends expected for the full year 2021. As we mentioned in a previous conference call, 2021 will be a year of rebuilding the portfolio at Interbank to foster growth in the coming years. Interseguro and Inteligo should continue to grow nicely, keeping up the positive strengths registered even in 2020 despite COVID.

First. related to capital, we expect Interbank capital to remain at sound levels well above regulatory requirements. As of September, total capital ratio of 15.3% and core equity Tier 1 ratio of 12% are above the guidance. Profitability, IFS September cumulative return on adjusted equity is at 22.1%. We are increasing our ROE guidance for year end to above 18%. Year-to-date loan growth as of September was 8.1% for retail and minus 4% for commercial, in line with our guidance. We expect retail loans to continue building up by year end. NIM was 4% in the first nine months and 4.1% in the quarter, growing 10 basis points, in line with guidance.

Cost of risk came, again, below the guidance at 1.1% in the quarter and 1.5% cumulative as of September. We are revising our guidance downwards to a cost of risk for year-end at around 1.5%. IFS efficiency ratio was 32% as of September, better than our 35% to 37% guidance. We have continued with our cost efficiency efforts and branch rationalization program, and we expect an increase in expenses in the fourth quarter in line with the recovery of activity which drives variable costs and further acceleration of our digital investments, including building our venture with Rappi. We should end the year in the low end of the guidance.

On slide 32, let me finalize with the six key messages of this presentation. First, macro fundamentals continue to be a point of concern and we see Peruvian GDP growth decelerating. Second, we have a strong balance sheet, with capital and liquidity levels substantially better than pre-COVID levels. Third, we have continued to see a good recovery in our core indicators in all three operating companies. The digital adoption trends continue to support IFS strategy, which translates into growth of clients and businesses. Credit risk profile of the portfolio is below pre-COVID levels, and we continue our focus on efficiency and branch rationalization.

Before we move to questions, we would like to let you know that as of yesterday we have approved an extraordinary dividend of 65 cents of dollar per share. We see this as an opportunity to optimize IFS capital structure at this time, given our comfortable capital position, the future level of growth and the liquidity at IFS. Thank you very much. Now we welcome any questions you might have.

QUESTIONS AND ANSWERS

Operator
Thank you. At this time we will open the floor for your 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 the star key followed by the number one on your touchtone phone at this time. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue, just press the star key followed by the number two. Again, to ask a question please press the star key followed by the number one. For the webcast viewers, simply type your question in the box and click Submit Question. We will pause momentarily at this time to compile a list of questioners.

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

Ernesto Gabilondo
Good morning, Luis Felipe and Michela, and good morning to all your team. Congratulations on your strong bottom line growth, your new ROE guidance and your extraordinary dividends.

My first question is on loan growth and net interest income. We noticed that during the quarter there was practically no loan growth. So just wanted to hear from you, what are you thinking for next year? Are you expecting better lending dynamics despite we can have a lower GDP growth? And how Reactiva loans should continue to impact in loan growth? And related to this, do you think that the net interest income should start to be above loan growth if we consider a higher retail exposure, especially in credit cards, and also the higher interest rates? And also, can you remind us, how is your sensitivity to higher rates? So this is my first question. And I understand there's a lot of questions inside that one.

For my second question, is in terms of your cost of risk. As you pointed out, cost of risk came below pre-pandemic levels for a third consecutive quarter. So, where do you see cost of risk normalizing next year? And finally, my last question is on your sustainable ROE. Your new guidance assumes 18% ROE for the year, but where do you see is sustainable ROE and when do you expect to be close to get to that level? Thank you.

Luis Felipe Castellanos
Ernesto, thanks very much for your questions. Let me jump straight to Michela. I'm sure she will be able to answer the three of them. Michela?

Michela Casassa
Good morning, Ernesto. So, let's start with loan growth. This quarter loan growth is flat, but this is mainly because of the Reactiva loans amortization. When you look at the growth of retail, retail has grown 3.6% this quarter, with a very, very nice growth of almost 10% in credit cards and in other consumer loans. So, basically, what is driving the growth down is commercial loans, which is 3% negative this quarter, but it's a positive number when you exclude the Reactiva balances. So that is also helping net interest income.

So one first comment, there is growth in the portfolio when you exclude the impact of Reactiva. Now, for next year, with the deceleration of GDP, we are expecting similar trends. So retail continue growing and commercial decreasing because of Reactiva and also because of a slowdown in the level of investment given the uncertainty.

The second point was, how fast is the net interest income going to increase related to the loan growth? We see positive trends in the yield, and this is coming from a number of factors. First, the increasing rates. Second, more credit cards in the portfolio, but also a recovery in the overall risk profile mix of the credit card portfolio itself. On the other hand, we have an increase in rates which is also impacting cost of funds. So, basically net interest income should increase slightly above loan growth. And this leads me to the sensitivity of the balance sheet, which we have recently revised, with increasing rates of 100 basis points in soles, the impact on the balance sheet is relatively flat. And of course here there are a number of things that need to happen in order to improve that, and the first of them being the ability to translate these increasing rates to clients.

Moving on to the second question on cost of risk. Cost of risk, as we have seen, is still below pre-COVID levels, and this is mainly explained by retail and by the overall retail portfolio mix. Remember that credit card has started to recover but is still more than 20% below the volumes of pre-COVID, of 2019. So, basically being credit card the product with a higher cost of risk and being 20 or plus percent below, this drives the cost of risk down. Moreover, the cost of risk of credit cards is also low because we are rebuilding the portfolio and we are with a risk profile of the credit card portfolio, which is better than what we used to have pre-COVID and what is our desired level of risk.

So, what we are expecting for the next year, as we have discussed in previous conference call, is that the cost of risk is going to start increasing, but we believe it will not be yet at the same level of pre-COVID because especially the credit card portfolio is not going to reach the same level and the same share in the overall portfolio as pre-COVID. So, most likely that can take place during maybe 2023.

And the last question, which is related to the sustainable ROE, I mean, we have seen this year's ROE very positively impacted by a number of mark to market revenues coming from Interseguro and Inteligo. We believe a more sustainable ROE for the years to come is around 18%, which is a mix of the different ROEs in the three operating companies. And of course there's a lot of work to be done there, especially because of the context of low growth and increase in rates, but that's the number that we are shooting for.

Ernesto Gabilondo
Super clear. Thank you very much.

Michela Casassa
Okay, thank you.

Ernesto Gabilondo
Yes, perfect. Thank you so much.

Operator
The next question comes from Jason Mollin of Scotia Bank. Please go ahead.

Jason Mollin
Hello. Hello, everyone. Hi, Luis Felipe and Michela. I have two questions. The first is on the political side. You mentioned that political uncertainty is still impacting the macro. We did see a real bounce from market lows. If you could talk about perhaps some improvement in the political uncertainty from your perspective and what still remains to be seen and what your concerns are on that front.

And secondly, I wanted to ask on the deposit dynamics, you showed market share gains, the highest level that you've seen, 15.2%, particularly coming from retail, which looks very attractive. If you can talk about the strategy there and what kind of clients are bringing their deposits to Interbank, what's driving that, are these from other clients of other banks or are these new entrants in the banking system, etc. Thank you.

Luis Felipe Castellanos
Again, it's early in the new government, recently celebrated 100 days, however, the period has been marked. But the executive branch is trying to establish basically a working team in the Cabinet, so there are still reshufflings in the Cabinet. As you know, the Prime Minister was changed recently, a new team came in. I think that change decreased the level of uncertainty and was part of the rebound. However, there’s still a number of positions that are being observed and people including Congress are taking a very serious look at in terms of the qualifications of the people that are coming into government, and not only at the Cabinet level, but also throughout the team that the executive branch has to put together.

So I guess until there's more stability in that front, the consumer confidence and the business community confidence will continue to be at low levels, and the change could be more clear messages towards the right people in place and stability in terms of supporting the strength of the institutions, clear rules, fostering private investment and all of that good that we usually talk about in order to strengthen growth in a country. So again, still things being observed, some noise during these days in terms of the people that are being recruited to be part of the executive branch, and that needs to be cleared in order to continue to set the path for the economy of the country.

In terms of deposits, we have been able to increase our retail deposit base. Basically, I will attribute that to our very aggressive strategy. Realizing that this has been a very liquid year where there's money been coming out from pension funds system, there's been the grant of cash by the government, so we’ve had a strategy to bring more people into the system through our digital payment solution, like Tunki, we participated in distributing the cash grants by the government to part of the population with our 100% digital solution. We were the first ones to do it last year, and we have continued to do it this year. And we've participated very actively in that process, so there’s some bancarization there. But also, we were one of the first ones to have 100% digital process to help people receive their funds from the pension fund system, and that has been part of our tactical strategy, if you want, for last year that has granted very good returns for us in terms of acquiring both new clients and higher balances.

And then the overall strategy that we have in terms of providing digital solutions to our customers and being able to open accounts with a few clicks and managing your money, creating the ecosystem of payments, so that has also resulted in very good traction in terms of increasing our customer base. As you can see, Interbank has been 2 million plus customers for many years until the last, let's say three years, when we started to accelerate this strategy, and today we have 4.3 million retail customers. So I guess it's a mix of different things. And the strategy that has a combination of movements, given the environment plus also the consolidation of the long term results of the core strategy of building digital first solutions, is so far showing the results that we are able to show this part.

Jason Mollin
Thank you very much for the comments. I appreciate it.

Luis Felipe Castellanos
You’re welcome.

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

Andres Soto
Good morning, and thank you for the presentation. My first question is regarding efficiency. In your initial remarks you mentioned you expect expenses to remain high in the fourth quarter. My question is mostly regarding 2022. If we assume continued growth in credit cards and additional digital expenses, can we assume that your efficiency ratio will remain under pressure for a few years from now on and it's going

to be at around 40%? Or you expect to do any better than this?

And my second question is regarding Reactiva loans. We have seen the expiration or repayment of those loans. I'm curious to see if you guys have been able to offer those clients regular loans in lieu of those Reactiva loans, and overall if you can comment on your strategy to entering Reactiva as an opportunity for you guys to expand into the SME sector. Thank you.

Luis Felipe Castellanos
Maybe Michela can comment on the efficiency. Yes, you're right, efficiency will be under pressure because well this year has particularly been special because we've seen a rebound in expenses compared to last year. However, going forward our heavy investments in digital will continue to put some pressure on base. Here, the thing is if we're able to rebuild the credit card portfolio and income or revenue to start coming back from that part of the portfolio, the pressure will be relieved somehow.

And then I think the other important thing is that we see Interseguro and Inteligo still being with very, very high levels of efficiency. So all summed up together, we'll continue to have IFS as a fall at below 40%. The bank will be mid-40s, probably for some time. I don't know if it's going to be for years, as you mentioned. Maybe the following quarters is more likely until the credit card portfolio and some of the retail loans continue to come in close to what we had in 2019, where we were able to have Interbank below 40% efficiency levels.

And regarding Reactiva loans, the strategy is paying off actually. We had a couple of ideas when going strongly into Reactiva. The first one obviously was to help our customers and help Peruvians in this situation. And then the second objective was to increase our customer base, get new customers with these facilities that were designed very well by the Central Bank and the MEF at that time. Yes, we are offering a replacement of those loans to the customers, to the clients, and actually married that and we have models working towards that. So especially in medium sized enterprises this is playing very well.

In small sized enterprises, we kind of doubled down in terms of the strategy. We increased more than 1,000 customers, or probably even more, and Michela can actually tell us—a big number of customers. There, we are taking it with lots of caution. We are building our models, because that's a different type of underwriting that we need to do there. So we're building our models. It's probably going to take a little bit more time in order to fully understand that segment. Today, we're working with those customers, which with the guarantee of Reactiva, once our models start giving us good information about the risk profile of those customers we'll be able to become more aggressive behind the big growth in Reactiva in the small sized enterprises, whilst to be able to get more familiar with those types of customers, something that Interbank before did not have, and based on that growth of franchise on the small sized companies.

Michela, maybe I missed something. Did you want to complement?

Michela Casassa
Yes. I mean, maybe just to say that when we launched the Reactiva strategy, we were more aggressively thinking in the SMEs. And so far what has happened is that we increased the number of clients with loans, I mean, big numbers in SMEs, but also in the mid-sized companies. So basically, the Reactiva loans that have started to mature as of today are the corporate and the mid-sized companies, so, we have started to replace those Reactiva loans with traditional loans at higher yields. And in the case of mid-sized companies it is between 30% and 40%, what we are being able to keep out of the Reactiva loans that go away. So that is working quite nicely, I believe.

But in the case of the small businesses, there have been very few deadlines of the loans, because remember they have also had this chance to extend furtherly 12 months the loan. So as I showed you in the slide of Reactiva, the S/ 2 billion loans that we have with the small businesses is pretty stable, because there have not been many maturities yet. So in that segment, I guess things are moving a little bit slowly and more cautiously, as Luis Felipe was mentioning.

And maybe just one last comment on the efficiency, specifically for Interbank. We have seen a high increase when we look at percentages, percentage points in the expenses of Interbank, also because we had a very low base last year. So basically, we don't expect expenses to increase in 2022 as much as in 2021. Still, all the comments of Luis Felipe for the efficiency ratio hold, our challenge there is to improve the operating leverage of Interbank, which will start to take place in 2022, being able to grow revenues much faster than expected.

Andres Soto
That was very clear. Thank you both for your responses.

Luis Felipe Castellanos
Thank you.

Michela Casassa
Thank you, Andres.

Operator
Again, if you would like to ask a question, please press star then one on your telephone. For the webcast viewers, please remember that you may type your question in the box and click Submit Question.

Our next question on the phone comes from Alonso Aramburu of BTG Pactual. Please go ahead.

Alonso Aramburu
Yes. Hi, good morning, and thank you for the call. I wanted to ask about the digital payment solutions. Can you give us some color on what are your monetization expectations, where you are today in that respect? What initiatives are you planning, I guess, especially for Tunki, but as well as PLIN? Thank you.

Luis Felipe Castellanos
Thanks for your questions. Yes, let’s see, PLIN is much simpler. As you know, it's a P2B among banks, and there what we're doing is work with merchants that are able to receive payments with PLIN. So one of the first monetization solutions that we have is basically getting float going through those merchants. And then the other one will be giving more accessibility to customers that want to do their transfers in a simple way, and there getting deposits is important for us.

In terms of Tunki, we have, I think, and Michela can complement this, but we've started since inception good monetization solutions there. So it’s going very well. We have top-ups in Tunki. We are able to build the same strategy, besides top-ups and float we are also able to pay some services, like say Luz del Sur and all that, we get a fee on that, and that’s also already running in the platform, and then the same ecosystem concept of merchant acquiring and being able to move payments through that ecosystem. So basically, that's it. And then we already have further plans that we will be presenting once we get them into the platform. Rather than just offering or promising, we like to talk about the things that we are actually able to do.

Alonso Aramburu
Okay, great. Thank you, Luis Felipe. And as far as the number of users, what are your expectations for next year?

Luis Felipe Castellanos
Michela, do we have guidance on that yet?

Michela Casassa
No, not yet. Sorry.

Luis Felipe Castellanos
We'll come back to you with that, Alonso. Obviously, it's growing, actually it's growing like 6%, 7% per month basically on both fronts. We expect that trend to continue and accelerate based on the things we're doing, but we don't have specific numbers that we are sharing now.

Alonso Aramburu
Okay, thank you.

Luis Felipe Castellanos
You're welcome.

CONCLUSION

Operator
There appears to be no further questions at this time. I would like to turn the floor back over to Mrs. Michela Casassa for any closing remarks.

Michela Casassa
Okay. Thank you very much, everybody, for joining this call. We will be meeting again to review our year end results next year. Stay safe. Bye-bye.

Operator
The conference has now concluded. Thank you for attending today's presentation. And you may now disconnect.