Intercorp Financial Services

1Q23 Earnings

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning and welcome to Intercorp Financial Services First Quarter 2023 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'll open the floor for questions. At this 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, and good morning, everyone. On today's call Intercorp Financial Services will discuss its first quarter 2023 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. Juan Pablo Segura, Chief Financial 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, 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 and welcome to our first quarter 2023 earnings call. Thank you all for joining us today. Let me start by giving you a brief overview of the macro situation in our country. As you may be aware, we continue to operate in a challenging environment, with GDP growth expectations for the year at 2.5% according to the Ministry of Finance. Economic activity was affected during December 22 and January this year by certain episodes of social unrest, and most recently by heavy rainfalls and flooding impacting Peru's coast. The possibility of an El Niño phenomenon later this year has not been ruled out. On the other hand, the 12-month inflation rate is slowing down, below the 8% mark. Yet the sustained high inflation is still negatively impacting Peruvian businesses and consumers, with pressure on margins and family's purchasing power. Inflation expectations for 2023 remain above the Central Bank’s target range. Internationally, market conditions continue to be volatile, and inflation continues to be a source of concern for global central banks.

Moving to our business, we continue to experience higher interest rates in both soles and dollars contributing to higher margins this year, as we were expecting. However, cost of deposits has also increased sharply, slowing margin expansion. We have seen an increase in the cost of risk mainly in the retail portfolio. We had anticipated cost of risk to increase, however, sustained inflation and the above-mentioned factors are putting additional pressure in our portfolio. The banking superintendency announced a new loan rescheduling program to provide relief for debt holders. We have been very proactive in using this facility to help our customers. We're closely monitoring payment behavior and being cautious with our operations given the scenario that we're facing, and we have taken a conservative approach to loan loss provisions this quarter. We remain committed to helping Peruvians overcome these challenging times.

On a different note, we have started to report our insurance business under IFRS 17 accounting this quarter. The first-time adoption impacted equity by over 640 million, and it will normalize in time. Our wealth management segment is slowly recovering its investment performance, with the second consecutive positive quarter after a challenging 2022 due to market conditions. Finally, our payments ecosystem continues to show solid growth and is well positioned to take advantage of opportunities presented by interoperability as we go after additional growth.

In all, we are pleased to continue to see double digit growth in IFS’s recurring revenues and world-class efficiency levels. We remain optimistic about IFS’s outlook going forward. Even though we're facing challenging conditions, we believe that once the dust settles, we will return to our path of sustainable profitability and growth. We continue to execute our strategy across our four business segments. We're confident that our culture and people, our efficient operations, our digital capabilities and our ability to adapt to changes are our core pillars to achieve our objectives.

On a final note, as you are aware, in our last shareholders meeting, a shares repurchase program was approved. We are in the process of finalizing details on the institution that will help us in this effort.

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

Michela Casassa
Thanks, Luis Felipe. Good morning and welcome, everyone, to IFS’ first quarter 2023 earnings call. Today, we will review our financial highlights and key messages. Despite certain volatility in our financial results our core operating trends are aligned with the strategy we're deploying, as Luis Felipe has just mentioned, with a clear priority on digital growth with focus on profitability. Today's information includes new accounting standards IFRS 17 for the insurance business figures and 2022 figures have been restated for comparison purposes at Interseguro and IFS level. The first adoption impact is around 600 million soles at Interseguro and IFS equity.

I will start with a summary of financial highlights on slides 3 to 9. On slides 3 and 4, IFS first quarter recurring earnings are 308 million soles, with an ROE of 13.3% when normalizing an impairment effect from new reschedulings at Interbank. The quarterly and yearly decreases in earnings are mainly due to a higher cost of risk in the consumer portfolio, but also to a lower-than-expected result from investments at insurance and wealth management. Payments has performed nicely and continues with double digit growth in most KPIs. On banking, we have seen some signs of moderation in growth due to the macro scenario, as we have continued our focus on low-risk clients within the consumer portfolio. NIM was up this quarter 10 basis points, reaching 5.5%, despite the further increase in cost of funds, as yield on loans improved 40% in the quarter.

As discussed in our previous conference calls and in line with the change in portfolio mix and sustained inflation, cost of risk has increased, reaching 3.2% this quarter, impacted by two additional and unexpected events, which are the social protests and unusual heavy rains on some specific regions of Peru. Due to these events, we have helped our clients with some rescheduling of loans, mainly on credit cards in line with the superintendency guidelines which will start maturing in the coming months.

On insurance, the first figures reported under IFRS 17 showed earnings below our expectations, mainly due to soft results from the investment portfolio. On wealth management, results continued its recovery path, however, still below sustainable profitability.

Finally, on our payments business, on one side Izipay continues with the solid growth in business, strong growth in number of merchants and transactional volumes and gaining share within our volumes in e-commerce in the year. Additionally, Plin and Tunki continue with strong growth of users and transactions, as we will see in more detail further on in the presentation, and which should help us to benefit from the interoperability that has just started and to advance with our payment ecosystem.

Among the key performance indicators for the quarter and the year, on slide number 5, I would like to highlight the very good quarterly efficiency ratio, which stood at 33% at IFS, going back and even better than pre-pandemic efficiency levels.

On slides 6 and 7, good news in top line, as total recurring revenues for IFS grew 21% year over year, thanks to the growth registered in banking of 21%, wealth management of 10%, insurance of 8% and payments of 7%. On a quarterly basis, growth of 2% is impacted by seasonality, mainly coming from a strong fourth quarter.

On slide 7, another positive is our fee income, which constitutes a source of incremental and diversified revenues, growing 11% year over year, with important contributions from banking, which represents 63% of IFS fees, payments at 26% and wealth management at 12%. Moreover, banking fees continue to grow double digit on a yearly basis, thanks to double digit growth of credit card fees and a negligible impact from lower account fees, as we have not been charging interbank fees to our retail clients for many years now, in line with our digital growth strategy.

On slide 8, the efficiency ratio of IFS was 33% in the quarter and was 37% for banking. Both ratios are very good, mainly thanks to the operating leverage of the bank, which was very strong in the quarter, with revenues growing 21% year over year and costs growing only 7%. This has helped the efficiency ratio of the bank to improve almost 500 basis points in the year.

On slide 9, we have a solid capital position, as evidenced by the ratios of Interbank, but also of Interseguro and Inteligo. First quarter capital ratios at Interbank are now fully Basel III compliant following the latest superintendency implementation which sees a gradual implementation in the minimum required limits for both total capital ratio and core equity Tier 1. Core equity Tier 1 ratio at Interbank is at 11.1% as of March and total capital ratio stands at 15.2%, both including already the effect of dividend distribution.

There have also been some changes in wealth management capital requirements established by the Central Bank of Bahamas, which raised the minimum limit to 12%. And there have also been some additional deductions to capital that have resulted in the decrease of the capital ratio on a quarterly basis.

Now, I will focus on six key messages we would like you to take home from this call on slide number 11. First, the macro-outlook continues to be challenging, impacting banking profitability. Second, we have implemented IFRS 17 with impacts in the insurance business disclosures and at IFS level. Third wealth management results, still impacted by investments but registered its second consecutive positive quarter in terms of earnings. Fourth, we continue to work on our two-tier digital strategy, showing positive developments in our digital indicators to foster growth at IFS with sustainable profitability. Fifth, we continue to see a positive evolution in our payment business. And finally, we continue making progress in our sustainability efforts.

On slide 12, we're showing the evolution of some of the key macro indicators. GDP growth continues to be low, with a revised estimate of 2.5%. Interest rates have been stable in soles, at 7.75%, and the dollar rate has continued its upward trend up to 5.25%. The exchange rate is now down to 3.76 soles per dollar at the end of March. It has continued to go down during the next month. Inflation continues high at 8% as of April but showing a downward trend from the peak of 8.8% of June last year.

Moving on to banking on slide 13, we have strengthened the focus on low-risk clients in consumer finance and SMEs, as shown in the quarterly decrease of new loan disbursements in personal loans and SME loans. Credit and debit card purchases are flat on a quarterly basis but continued to grow 25% year over year. In the same way, balances have increased 6% in the quarter and 27% year over year. We continued to see important growth in turnover, as both credit and debit cards continue in their path of increased penetration in the country, which is still low. This growth has allowed us to increase market share of around 50 basis points in the past 12 months for the combined turnover, thanks mainly to our Interbank Benefit loyalty program, our increased focus on e-commerce and high growth product categories and finally to our upselling strategy.

Very positive is the fact that we continue to see double digit growth in banking revenues, on slide 14. Thanks to double digit growth in all revenue lines, net interest income grew 24%, with a strong contribution from credit cards and personal loans, but also from the repricing of commercial banking loans. Fee income grew 13%, mainly due to the growth of credit cards fee income, but also to the sustained growth in fee income coming from cash management services in commercial banking. Other income at the bank grew 15% year over year, mainly due to FX trading income. All in all, total core revenues grew 21% on a yearly basis.

Continuous repricing efforts pushed yield on loans upwards 40 basis points in the quarter and 260 basis points in the year, reaching 10.9%, and NIM 10 basis points in the quarter and 100 basis points in the year reaching 5.5%. Risk adjusted NIM has decreased 50 basis points in the quarter, mainly due to the increasing cost of risk of consumer loans. We have continued to see rising cost of funds, they reached 3.6% in the quarter, up 40 basis points on a quarterly basis and 180 basis points on a yearly basis. We continue to have, though, the best loan to deposit ratio among peers, at 99% as of March 2023 versus a system average of 104%.

On slide 17, we have seen a pickup in cost of risk, as previously mentioned by Luis Felipe, up to 3.2%, mainly due to the impact from the retail portfolio which has reached a cost of risk of 5.4%. During the first quarter we have granted some credit card customers rescheduling programs in line with SBS guidelines for the social disruption and Niño phenomenon. Monthly volume of rescheduling increased from an average of 60 million in 2022 to 130 million to 160 million in the first three months of the year, representing around 6% of the credit card portfolio as of the end of March. As of the end of April, only a small portion of these loans have matured, for which it is still early to understand the consumer payment behavior, which we will closely monitor and manage during the next four to six months when most of these facilities mature. NPL coverage ratio continues to be very high at bank level, at 178%, and even more in retail banking, at 252%, much higher than the 179% pre-COVID.

Now, let's move to the second key message of this presentation related to the insurance business and the new adoption of IFRS 17 which mainly impacts annuities business. On slide 19, the first quarter earnings of 31.3 million with a 40% ROE are the first results under IFRS 17. This quarter, we have registered some negative impacts in our investment portfolio of an impairment of a fixed income investment plus the negative impacts on real estate valuation from the depreciation of the dollar. Moreover, we have registered a positive translation result from the devaluation of the dollar again, as with the liabilities under IFRS we have a higher position in liabilities in dollars.

On slide 20, there has been a decrease in annuities due to a contraction of the market and increased competition, but our market share remains strong for annuities at 25%. Both individual life and retail insurance businesses continue to grow double digit year over year, or 28% and 17%, respectively.

On slide 21, the quarterly return over the investment portfolio came at 6.6%, below the extraordinary high fourth quarter 22, but 25% above the previous year. The wealth management performance is still impacted by market conditions on the other income profit line. Good news is the asset under management evolution is positive this quarter, with contribution from both our offshore wealth management platform as well as the local mutual fund business.

On slides 26 to 28, positive news is in our digital indicators continue to show nice trends when compared to the previous year. Still, we believe there is a way to go in moving these indicators further. As of March 23, digital customers reached 71% of customers who interact with the bank during the last 30 days, up six points in the past year and digital sales reached 60%, up 1% from last year. We continue to see an important number of new digital accounts being opened for both individuals and businesses. For example, as of the end of March, 96% of new business accounts were opened digitally. NPS for digital retail customers continues its path to become a top NPS in the next years, reaching 47 points this quarter, improving two points versus previous year.

On slide 27, insurance digital indicators showed positive developments as well, with Vida cash life premiums, a digital product, reaching 35% of total life premiums. Wealth Management digital journey is also underway, with 41% of digital transactions within the local business conducted on our digital platform.

On slide 28, in line with our digital strategy we continue to see an important growth in our customer base of the bank, with a 17% increase year over year in retail, 29% in digital retail customers and 23% in commercial banking customers, reaching 5.5 million as of the end of March.

Now let's move to payments. On slide 30, we are showing solid yearly growth in key business drivers. Merchants increased 67% year over year, reaching 1.2 million. Transactional volumes grew 24% year over year. Moreover, e-commerce transactions are gaining share within our transactional volumes reaching 16% as of the end of March. Revenues continue to grow nicely, 7% on a yearly basis, supported by the increase in the transactional volumes and merchants. EBITDA shows a slight contraction year over year, mainly due to an unusually high first quarter 22 caused by specific seasonal impacts and to a slight decrease in margins. We have been working to accelerate the growth of our payment ecosystem by having all our assets work towards a common strategy. We are focusing on increasing transactional volumes, offering merchants additional services, continue to pilot low risk loans to merchants and use Izipay as a distribution network for Interbank products as well as a source to increase float.

On slides 31 and 32, Plin and Tunki continue with their accelerated growth. Plin reached 11 million customers as of the end of April, with Interbank participation still above 40%, and Tunki users reached 2.6 million. Number of merchants continued to increase as well, or 59% year over year for Plin and 56% for Tunki. The number of transactions has continued its strong growth or 7% only in the month of April for Plin and 6% for Tunki. Plin and Yape interoperability has just started. 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 into the financial system, reducing use of cash, which continues to be high in the country. We expect to benefit from more digital transactions, less cash, more data and increased float.

On slide 34. Moving to our ESG update, we have continued to enhance our sustainability strategy upon our focus areas. On our environmental front, Interbank has received a MINAM recognition for its carbon footprint measurement, and along with Interseguro and Inteligo, awarded a certification on behalf of Greenhouse Gas Protocol for the measurement of their GHG emissions. Our latest developments on the social front include being all four subsidiaries in the top 10 positions of the Great Place to Work Peru 2023 as well as the development of further content and learning through our financial services education platform, Aprendemas.

Finally, on our governance front, we have been included for the second year in the S&P ESG Sustainability Index, along with other 13 companies that carry out the best sustainable practices. Moreover, our recently published Interbank sustainability report for the year 2022 summarizes our performance on the environmental, social and governance fronts under the Global Reporting Initiative framework. To strengthen our sustainability culture, we have co-designed with Dalberg our first IFS sustainability forum that involves the participation of our four subsidiaries to reinforce our sustainability commitment.

Now, let me give you an update on our operating results for the first quarter 2023. Total capital ratio of 15.2 and core equity Tier 1 ratio of 11.1 with new Basel III implementation and after dividend distribution are above our guidance. ROE of 13.3% in the quarter has been impacted by cost of risk and investment results. Year-end ROE recovery will depend mostly on the recovery of those two factors. Loan growth of 15% is above our guidance, though we expect some moderation in the coming months. NIM for Interbank was 5.5% when excluding the impairment effect, in line with guidance. Cost of risk for banking was 3.2%

in the quarter, slightly above the higher end of the guidance. Following quarters might continue to be challenging depending on the behavior of repayment of the reschedulings done this quarter and the overall behavior of the consumer portfolio. New guidance for efficiency ratio at IFS level is to be below 36%. This first quarter efficiency ratio at IFS was 33.3% and the efficiency ratio for Interbank was 37% this quarter, better than guidance.

Now, let me recap the six key messages of this presentation. First, the macro outlook continues to be challenging, impacting banking profitability. Second, we have implemented IFRS 17, with impacts in the insurance business disclosures as well as IFS. Third, wealth management results are still impacted by investments. Fourth, we continue to work on our two-tier digital strategy showing positive developments in our digital indicators to foster growth at IFS with sustainable profitability. Fifth, we continue to see a very positive evolution in our payment business and ecosystem. And finally, we continue to make progress in our sustainability efforts.

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'll take the questions from the conference call and then the webcast questions. If you would like to ask a question, please press star then one on your touchtone phone now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the question in queue, just press star and two. Again, to ask a question please press star then one. 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.

Our first question will come from Ernesto Gabilondo with Bank of America. You may now go ahead.

Ernesto Gabilondo
Thank you. Hi, good morning, Luis Felipe and Michela and good morning, everybody. Thanks for the opportunity to ask questions. My first one will be on your NIM expectations. I remember your NIM has not benefited during this high interest rate environment, as you have mentioned in the past that IFS sensitivity to rates is neutral. So, considering this, how should we think about IFS NIM's evolution under an easing cycle?

Then my second question is on asset quality. As you pointed out, there was a higher cost of risk in the quarter. So, should we expect now the high end of the cost risk guidance?

And then on my last question, you mentioned in the last slide that you are keeping an ROE guidance at around 18% for the year and this despite the earnings contraction of this first quarter. So, can you elaborate on what will be the key drivers to support higher earnings growth and improve ROE over the next quarters? Thank you.

Luis Felipe Castellanos
Okay, Ernesto, thanks very much for your questions. Okay, let me go in order here and probably Michela is going to help me. But I think that evidence shows that our NIM has expanded marginally during the increase of rates. We do expect, during an easing cycle, that we will be able to expand NIM, and that will be very dependent on pricing discipline. But after answering the other two questions, I'm going to pass it on to Michela so she can give you a little bit more detail.

In terms of risk, I think it's safe to assume the higher end of the range given what we're seeing. Basically, as you're aware, we had expected an increase in cost of risk for the year, given the normalization of the economic activity, the post-pandemic effect of less liquidity in the system, and we had also expected inflation and slow growth. However, I think that what we're witnessing is more sticky inflation that probably will last more than we had anticipated during the years, similar to what's happening in other parts of the world, although we do expect that by the end of the year inflation will start going down, more importantly.

And second, the impact of the protests, especially in the south of Peru, was important. We had, not a significant amount, but around between 10% and 12% of our portfolio is in the south so it was impacted because of that, and then we had all the rains. And we're very careful because it looks like El Niño phenomenon could happen this year. So, all that has taken us to be very conservative on the provision front, and that’s what you've seen this quarter. Again, the risk models and the expected losses are still being calibrated because, similar to what happened throughout the region, the big liquidity injected into the system really made the risk models not to have great predictability. So, we're being very careful there, and as the situation normalizes and we are able to digest these impacts, we'd rather go on the conservative front, both on the provisions we have booked for this quarter, but probably this will continue in the next quarter, and also thinking that the range probably will be more towards the upper part as you mentioned. Okay.

And then in terms of the ROE guideline, obviously it is a challenge. We felt it was too early in the year to really elaborate on changes on the ROE. We will work strongly in achieving that target. That's what we think is the sustainable ROE for IFS. What would need to happen, obviously, if you look at what's going on, the operations are growing nicely, okay, and our efficiency levels are working very well. Okay? So, we had these provisions impact, and then market conditions affecting our investments. Okay? We do expect investments to recover, especially, hopefully in the second part of the year, probably, we'll see some more lagging results from investments next quarter. But I think that the worst might be over hopefully, and that will be a significant driver of our potential recovery. But we've had very good results in the same type of portfolio during the previous years. So structurally, nothing has changed, other than hopefully the volatility will go away. So, if that happens, we can build from there.

And then risk will be the other factor. We do expect growth to moderate, the efficiency, obviously, we're laser focused on being very efficient. We still continue to invest in the important things for us, but we're very disciplined in terms of the way we're approaching expenses. So, if that materializes, even though it's a challenge, the target ROE that we have anticipated, will be there, if those couple of factors turn positive as we hope.

Now on the first question, again, if maybe, Michela, you can give us a little bit more detail on the NIM question.

Michela Casassa
Sure. Good morning, Ernesto. I mean, you're correct, when you asked us in the past, the sensibility of increases in rates, we always said that was going to be neutral. But if you see what has happened with the NIM, both at Interbank and at IFS level in the past year, it has actually improved 100 basis points in both numbers. So, the NIM has moved from 4.5% in the first quarter of 2022 to 5.5% in this quarter. Okay, so what has been different, if you want from the sensitivity, the theoretical sensitivity that we made? Well, first of all, was that we've had many increasing rates together. No? So basically, we've had more than 500 basis points increase in rates in soles and more than 400 basis points increase in dollar rates. So basically, we've been very disciplined in trying to transfer these increasing rates to the yields. As you can see from the evolution of the yield of loans, that has moved from 8.3% in the first quarter last year to 10.9%, so here we're talking about 260 basis points. Of course, also the portfolio mix has helped, so more retail, more consumer, and also the decrease of the Reactiva loan book. So, NIM, when you look at the final results of what has really happened during the last year, it has improved 100 basis points.

Now, what we will expect forward. You have seen this quarter, on a quarterly basis, the improvement has moderated, it's just 10 basis points, and it is becoming a little bit harder to continue to increase NIM for two factors. The increase in cost of funds, especially in soles, and the second one is that a big portion of the transfer to clients has already taken place. Okay. So, I believe we will maybe still see some improvements in NIM but much more moderate. And just to give an additional comment of the profitability, I mean as you see, the drivers of the subsidiaries, so basically what has happened in this quarter is that still wealth management ROE is low and the banking ROE is low because of cost of risk. So, if those two ROEs normalize for the factors that Luis Felipe has mentioned, also with some additional investment results from Interseguro, that is what should drive ROE to the sustainable levels.

Ernesto Gabilondo
Perfect. Thank you very much, Luis Felipe and Michela. Just to follow up on the NIM expectation, so considering that you have been increasing into retail and consumer and that the loan mix has changed, so considering lower interest rate environment, so all of the variable funding costs will come down and that could give you like another element for NIM expansion, not this year, but maybe next year, do you think that could be feasible?

Luis Felipe Castellanos
Yes, that will be the case, especially in the retail book. In the commercial book, it's more spread based, so probably that that will not be the case, no. But we do expect that we will be able to hold our current yields or existing yields at the moment in the retail book. Maybe mortgages will be more challenging, but definitely in consumer we have a chance to keep that at the levels where we have them.

Ernesto Gabilondo
Perfect. Thank you very much.

Luis Felipe Castellanos
Thank you.

Operator
Our next question comes from Juan Recalde of Scotiabank. You may now go ahead.

Juan Recalde
Hi. Good morning. Thank you for taking my question. I have a question related to the impact on equity of the implementation of IFRS 17. So, the first one is, can you confirm that the impact was around 644 million? The second question related to this is if we will see a reversion of this impact. And if yes, if you can give us some color of how we can see this reversing in the future. Thank you.

Luis Felipe Castellanos
Okay, thank you. Yes, it was 644 million impact on equity that goes into Interseguro and obviously IFS. And the reversion will take time. But maybe I can pass it on to Gonzalo or Juan Pablo, so they can elaborate a little bit more on the dynamics of how will that work.

Gonzalo, you're muted.

Juan Pablo Segura
Maybe I can take the question, if you want, Luis Felipe.

Luis Felipe Castellanos
Okay, go ahead. Thank you, JP.

Juan Pablo Segura
Yes, the 640 million soles liability will be released based on the duration of our contracts with customers, right. So, there are products that have durations of 8 years, or they have 12 years of durations, and we will see them released as the maturity of the contracts with the customers expire, right. So, I would say overall Interseguro, that duration mix of products will be around 10 years.

Juan Recalde
That's helpful. Thank you for the color.

Operator
Our next question will come from Yuri Fernandes with JP Morgan. You may now go ahead.

Yuri Fernandes
Hi, everyone. Good morning. I have a first question regarding your rescheduled loans this quarter. Looking to the presentation, there is an appendix, and it seems this is mostly related to your credit card loans. So, my question is, what is the size of, like your – I guess 70 million soles was the gross financial income impact, right? – of this. So, my question is, what is the balance? And how should we see this balance of rescheduled loans evolving over time?

And I have a second question regarding deposits. You had like a good deposit behavior, gaining market share, I guess the industry is not growing a lot of deposits basically lately, right, but you are growing loans a little bit faster than your deposit rates. And we are seeing a mix shift on your deposits. So, my question is how to keep growing fast, not fast, but recovering a little bit the growth on the loan side with this more challenging environment for banking deposits. Thank you very much.

Luis Felipe Castellanos
Okay, thank you, Yuri. On your first question, I'm going to pass it on to Michela for the details. I think the numbers you mentioned are right, but she has a little bit more color.

On the second one, obviously, one of our challenges is to continue growing deposits, especially efficient deposits. So, we have obviously our core strategy is to grow deposits with one additional challenge, especially and particularly for us, which is, as you know, we have reduced our branch footprint. So, we're very pleased that despite that reduction of more than 100 financial stores in the last couple of years, we keep our market share in retail deposits. So that's a testament to the power of our digital solutions to gain deposits. Okay. And then obviously, we have a complete ecosystem strategy for our commercial clients and we're deploying that. And it's also working nicely.

We do expect loan growth to moderate, so that should ease a bit. And obviously, we have other alternative sources of funding that will allow us to continue growing. I don't think we will need to decelerate growth, if healthy growth is there because we cannot grow deposits, because we have other sources of funding there. But medium and long term, our strategy is to continue deploying digital solutions, both for our retail and commercial customers, that should allow us to continue gaining market share.

Now, let me get back to Michela, so she can work on the first part of your question.

Michela Casassa
Okay, good morning, Yuri. Yes, you're right, most of the reschedulings that we have made are in the credit card portfolio. As of the end of March, that balance is around 6% of the credit card portfolio or less than 2% of the retail portfolio, so meaning like less than 1% of the total bank book. So, these reschedulings have just started to mature, so we have seen a very small number of rescheduled loans maturing in April. We will see some more in May and June. And then a big portion of them will come up until August. So basically, this is what we have done so far. The level of April in terms of the new reschedulings have normalized and of course this evolution in the coming month will depend a little bit on what we can see after the management we're doing and the monitoring of the maturities that will come in the following months.

Yuri Fernandes
No, that's clear, Michela. I have just a follow up on rescheduling. Your cost of risk was higher, right? And I think you're postponing, helping clients to be able to pay the loans. And I think it makes sense. But shouldn't this be helping the cost of risk? Or no, or when you have to reschedule you need to migrate this to stage two or stage three and you need to use more provisions? So my question is, shouldn't this process of rescheduling some loans be not helping your cost of risk? It was not the case this quarter, so that's why I was a little bit confused, right, because higher reschedules should be helping your cost of risk.

Michela Casassa
No, you’re right in the local GAAP, Yuri. But as in IFRS, the loans move to stage two, when you see a substantial increase of risk, these clients that have been rescheduled are already considered in the substantial increase of risk. So basically, this is why a big portion of this is already included in the cost of risk of this quarter, because of the of the forward-looking vision of IFRS 9 for provisions.

Yuri Fernandes
Oh, that's good to know. That’s what I thought. Thank you, Michela.

Michela Casassa
You're welcome.

Luis Felipe Castellanos
What I was telling Yuri is that it captures a big portion, but not all of it. We'll have to continue monitoring. But the forward-looking, as Michela mentioned, does capture a portion of the increase in risk of these types of customers, as opposed to, as she mentioned also, local GAAP.

Operator
Again, if you have a question, please press star then one. Our next question will come from Carlos Gomez with HSBC. You may now go ahead.

Carlos Gomez
Hello. Good morning. I joined the call late, so maybe you have already answered this. You have this extraordinary charge of 70 million. And perhaps if you could give us a bit more sense as to why you take it now. There is a differentiated approach to the way other competitors are recording the impact of the disturbances at the beginning of the year. What makes you take it? And do you expect this to be a complete one-off, or you might have to revisit this in the future? And second, if you could tell us what your payout ratio should be in the long run. Thank you.

Luis Felipe Castellanos
Can you repeat the second part, is the payout ratio?

Carlos Gomez
Yes, the payout. The dividend payout ratio in your long-term plan in three, five years, where would you expect your payout to be? Thank you.

Luis Felipe Castellanos
Okay, great. The first part of the question, let me pass it on to Michela, she probably can help you more than I.

The second part of the question, our payout ratio continues to be the addition of the dividends of our subsidiaries and just to remind you, local GAAP. Okay, so what we're doing at the bank, like at Interbank, it's 45% to 50% payout ratio, in Interseguro around 50%, and Inteligo around 50% plus as well. All those funds go up, we just keep a bit for our holding operation, which is the financial expenses and minor operating expenses and everything else goes up for dividends. So that's the way you should think about it and the way you should model it.

And then for the first part of your question, let me pass it on to Michela.

Michela Casassa
Hi, Carlos. Good morning. So let me give you an explanation of the impact that we have. This is something similar to the impairment that we had during the second quarter of 2020 when we did the reschedulings on COVID. Of course, the magnitude of what we have done this time is much smaller, okay. But the impairment is high because what has changed is that as you need to do the difference between the NPV cash flows of the old loans versus the NPV of the cash flows of the new loans, what has changed this time is that we are taking loans that were consumer loans with very high rates, because of the high-rate

environment that we are today. So, the conditions of these new loans have lower rates. So, the differential in rates of these flows is much higher than it was from COVID. So, this is why, even if the volumes are very small, when you do this exercise of NPVs, you find this big impact this quarter.

So basically, what happens is you have this negative this quarter, but as long as those loans mature and some of them are repaid, you will see some small positive impacts in the coming quarters. What we should expect going forward, if we do not do additional reschedulings in the magnitude, not volumes, but on the differential in rates that we did in the first quarter, we shouldn't have such a big impact going forward in the year. I'm not sure whether this was clear.

Carlos Gomez
No, it is clear, and it is because, as you said, the rates are higher now. But again, you do not recover anything. Even if rates go down, we should not expect recovery of the 70 million?

Michela Casassa
No, no. The recovery will take place for the portion of clients that pay their debts.

Carlos Gomez
Again, this was mostly because of the disturbances earlier in the year. We follow the news; we understand that everything is relatively normal right now. Is it? Are things operationally normal in the entire country today or do you still find difficulties in some parts?

Michela Casassa
No, no, today we are fully operational. The disruption for the protest was more than January beginning of February, for the rains was a portion of March, but now everything is restored back to normal.

Carlos Gomez
Very clear. Thank you so much.

Operator
At this time, we will take the webcast questions. I will now turn the call over to Rafael at InspIR Group.

Rafael Borja
Thank you, operator. We have a question from La Positiva. “Can you explain with more details the main changes that impacted in a positive way the results in the insurance line due to the IFRS 17?”

Luis Felipe Castellanos
Okay, maybe Gonzalo or Juan Pablo can help me with that part of the positive impacts of IFRS 17 for La Positiva question. JP?

Juan Pablo Segura
Sure. I think Gonzalo is having mic troubles. So, there are different impacts with the IFRS 17 adoption. There are some favorable ones, and some unfavorable ones. I wouldn't say that all of them were favorable in Q1 or the pro forma that we show for 2022. Right. So, the main changes that I can highlight is, one, you have a higher liability that we’re constituting because all the maintenance expenses of a contract from now on to the future, until the contract expires with the customers are now brought to net present value in the liability. And that's why the liabilities of the insurance balance sheet go up.

The other big impact is a concept called risk adjustment, which is around 4% to 5% of the total liabilities of an insurance company. So IFRS 17, calls for additional liabilities for risks that are not specific to the industry, but risks then that can come up during the time of the contract. That's around 4% to 5% of our liabilities.

The other one is all the gains that we get from the new business, so when we underwrite a new insurance policy, we were recognizing the profit of that policy right away. Now you capitalize it, you can call it capitalize it within liabilities, and then you accrue that profit for the duration of the contract. Right. So that's the other one.

The other big impact is the customer acquisition cost. With IFRS 4 we recognize, as we recognize revenue also, we recognize all the customer acquisition cost right away. Now, we also capitalize it, and we accrue it on the duration of the contract.

And the last one will be something that is called the loss component. And this is for insurance contracts that when we underwrite them, or any insurance company underwrite them, the benefit or the net present value of the benefit is negative. And that depends obviously on the WACC or the interest rate that we're using to calculate the net present value. When the policy underwritten is negative and it's a loss, we have to recognize that immediately in the results of the quarter or of the month.

So those are the big highlights of the new adoption of IFRS 17.

Luis Felipe Castellanos
Okay, thank you, Juan Pablo. Just for everyone in the call, there is information about the effects of IFRS 17 and even a reconciliation of the results of 2022 as if they had been under IFRS 17 in the appendix of our earnings presentation. So probably there you will have important insights in terms of the effect, not only what we should expect going forward, but you can reconciliate what would have happened if that were in place during last year, no? So hopefully that's helpful for everyone.

Rafael Borja
We have another question from ADP Ventures. "You have shown impressive growth and penetration numbers for the digital and payments business. Can you please discuss other metrics you are tracking for the digital and payments business that help you determine whether you are creating value, perhaps unit economics or revenue per user ratios?" Thank you.

Luis Felipe Castellanos
Okay. Hi, Greg. Thanks very much for your question. To answer this question, let me pass it on to Carlos Tori, I guess everybody knows Carlos, he's been the VP of Retail Banking for many years and an important part in pushing forward our digital strategy. And since the beginning of the year he has been in charge of, now responsible for our new payments pillar. So, he will have good insights about the way we're looking at these. So, Carlos, please.

Carlos Tori
Thank you, Luis Felipe. And thank you, Greg, for the question. First of all, the good thing or the great thing is there's still a lot of opportunities. Depending on which source you use 60% or 80% of the payments in Peru are still made in cash, so there's a lot of growth coming in the future. Thus, we are focusing on the whole funnel. We started trying to get as many users as possible, both on the user or

payer side, as well as the merchant side. So, we start there. And then we try to keep them active. And the more transactions each user has, both on the paying side or the receiving side, the better. So, we have a lot of focus on each of those numbers or KPIs.

Then we have to separate the payers which are customers at the bank, which either use credit cards or debit cards, but mostly Plin, and then I'll talk about the merchants later. The customers that use Plin, we have seen, have a much lower cost to serve, they're digital clients. We have higher float, higher engagement, higher NPS, we have a higher cross and obviously less use of ATMs. So that's a definite positive. You probably heard, we've been very focused on lowering cost of acquisition as well, not only cost to serve. Most of our clients come through digital already so cost of acquisition is very low. So that's one source of revenue or some source of value.

And then when you look at the merchant side, we also are focusing on cost of acquisition, more clients, more use. It's easier to see the value there because you can see the positive EBITDA and net income on that business. All of the credit card and debit card payments have a fee. And we have a very active department of pricing and analysis. And we continue to be very active on everything we do with pricing there. And so, you see the results on that company. Obviously, we continue to work on additional sources of income, either aggregated services, we've been working very closely to move the flows of the merchant companies to Interbank, so there's additional flows from that. And we've been highly successful doing that, so we're seeing some of the synergies.

So, there's a lot of sources of value. We have, as you can imagine, many, many KPIs, but I would say the net income at Izipay and the EBITDA is probably the most specific one to follow, very, very focused on activity ratios on our customers.

Luis Felipe Castellanos
Thank you, Carlos. More questions?

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

Michela Casassa
Okay, thank you very much. Thanks again, everybody, for joining us in our call today. And we will see everyone back again during our second quarter earnings call. Thank you. Bye, bye. Be safe.

Operator
This concludes today's conference call. You may now disconnect.