Intercorp Financial Services

First Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Good morning, and welcome to the Intercorp Financial Services First Quarter 2025 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 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 Mr. Ivan Peill from InspIR Group. Sir, you may begin.

Ivan Peill
Thank you, and good morning, everyone. On today's call, Intercorp Financial Services will discuss its first quarter 2025 earnings. We are very pleased to have with us Mr. Luis Felipe Castellanos, Chief Executive Officer of Intercorp Financial Services; Ms. Michela Casassa, Chief Financial Officer, Intercorp Financial Services; Mr. Carlos Tori, Chief Executive Officer; Interbank; Mr. Gonzalo Basadre, Chief Executive Officer; Interseguro; Mr. Bruno Ferreccio, Chief Executive Officer, Inteligo.

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, Otherwise, if you need any assistance today, please call InspIR Group in New York on (646) 940-8843.

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, all, and welcome to our 2025 first quarter earnings call.

First, I want to thank you for attending our call, today.

We have started the year with a positive sentiment of observing the stability in the Peruvian economy with several consecutive quarters of growth exceeding 3%. This growth is driven by increased dynamism in sectors linked to consumption and the sustained momentum of private investment, which is projected to grow by 6.7%, year-over-year, as of March, 2025.

We remain moderately optimistic about the future growth of Peru as private investments and consumption continue their positive trend. Consequently, the forecast for GDP growth is 3.2%, according to the Central Bank. Nevertheless, we're cautious given that 2025 is a pre-electoral year, which could generate some volatility. We are also aware of external factors that could impact global growth, which we expect could be offset by persistent high commodity prices.

But moreover, the International Monetary Fund has recently updated its growth estimates, adjusted global growth downward by 0.5%, while increasing Peru's GDP estimate by 0.2%, positioning Peru as one of the highest-growing countries in the region for the year.

The first quarter of 2025 was positive for IFS with our ROE exceeding 16%. This performance aligned with our expectations and sets us on a path towards achieving our long-term targets.

We believe the positive trend should continue throughout the year.

At Interbank, we had a better-than-expected start of the year. We managed to increase our market share in loans, strengthening our position as the third largest bank in the country. This growth has been mainly driven by our commercial banking business, where we gained over 120 basis points in market share. Moreover, we believe we are on the right path for the recovery of our consumer portfolio. As we are seeing more cash loan disbursements, thanks to our improved underwriting standards and the more benign macro environment. However, we are not there yet.

Izipay and Interbank continue to seize business opportunities together, while Plin keeps increasing the engagement of users fostering more primary banking relationships and supporting growth.

At Interseguro, we have seen relevant growth in our core business, mainly in individual life and annuities where we continue to be the market leader.

Our Wealth Management segment, Inteligo, continues a positive dynamic with clients, as assets under management reached a new all-time high, growing by 16% year-over-year.

We want to reaffirm our conviction to place our customers at the center of our decisions. As such, our key strategic priority at IFS is to achieve digital excellence for our customers and fostering primary relationships. Our ambition is to become a leading digital platform with a clear focus on key businesses and profitable growth, always providing a comprehensive suite of services supported by a world-class digital experience and leveraging analytics as our competitive advantage.

Going forward, we continue to be optimistic about IFS' prospects, which have proven to be resilient through the bottom part of the credit cycle. Our outlook on the back of the continued expected recovery of products fundamentals is positive. As such, we continue executing our long-term strategy.

Now let me pass it on to Michela for further explanation of this quarter's results. Thank you.

Michela Casassa
Thank you, Luis Felipe.

Good morning, and welcome again, everyone, to Intercorp Financial Services 2025 First Quarter Earnings Call.

We would like to start with our key messages for the quarter.

First, we had a solid start to the year as we observe a good trend in earnings and profitability. Our net income reached PEN 446 million at IFS level and ROE exceeds 16%.

Second, we are strengthening our commercial and payment ecosystem as internal share of Izipay flows now stands at 40%, allowing us to increase our market share in commercial banking by more than 120 basis points in the last year. Moreover, our consumer portfolio has stabilized in the past two quarters and started to grow back in the last three months, including April.

Third, our quarterly cost of risk stood at 2.8%, which is 190 basis points below last year, although it is 20 basis points higher than the previous quarter due to the Telefonica impact on provisions. Excluding this effect, the cost of risk would have been 2.5%, driven by the constant reduction in the retail cost of risk.

Fourth, the cost of funds remained stable this quarter, although showing an improvement on a year-over-year basis of 80 basis points. This improvement is primarily due to a fast repricing and improving funding mix.

Fifth, we are increasing primary banking relationships to a top digital experience as a result of our retail primary banking customers grew 15% in the last year.

Sixth, we have continued with strong growth in our insurance and wealth management core businesses. The retail premiums grew 36%, driven by annuities and life insurance and assets under management grew 16%.

Finally, this result includes an impact of around PEN 104 million in provisions due to the Telefonica deterioration. Even including this effect, the results are above our expectations, marking a strong starting point for the year and setting us on the path to our medium-term ROE goal.

Let's start with our first key message. On Slide 4, the improvement in macroeconomic indicators has been steady over the last 12 months, primarily driven by investment in consumption. Consequently, GDP grew around 3.5% for the first two months of the year, marking several consecutive quarters with growth above 3%, as Felipe mentioned. Over the past year, most sectors have experienced growth with the most significant contributions coming from manufacturing, trade, other services, agriculture and fishing. In February, the primary sector contributed 2.3% while the non-primary sector contributed 2.5%.

Regarding monetary policy, the Central Bank has successfully controlled inflation anchoring it within its target range with an expectation of 2% for 2025. The Central Bank has been proactive in managing the reference rate, as yesterday, it surprised the market cutting an additional 25 basis points, standing now at 4.5% with no spread above the FED rate. Additionally, the currency has remained steady throughout the year. Both inflation and the exchange rates are expected to remain stable in 2025.

Looking ahead to 2025, the Peruvian economy is projected to grow by around 3.2%. This growth is anticipated to be stronger in the first half of the year due to the pre-electoral period, which typically reduces the dynamism in the second half. Additionally, the IMF obtained its growth estimates, increasing Peru's growth by 20 basis points to 2.8%, despite reducing global growth by 0.5%.

On Slide 5, consistent with the previous one, indicators show optimism in the labor market and private investment, where the key driver for growth has been the improvement in private consumption.

Consumer confidence continues its positive trend, aligning with economic optimism and labor market recovery. As of February, formal employment and real formal wages have shown a year-over-year growth, positively impacting private consumption.

Business trust has remained stable and positive throughout the year. The Central Bank's latest report anticipates private investment to grow by 4.1% in 2025, reflecting a more optimistic view of the Peruvian economy. Analysts estimate a 6.7% growth in private investment in the first quarter.

Regarding mining, several projects are planned for the upcoming years with total investments expected to surpass $50 million by 2028. Some examples include Tia Maria and Yanacocha. According to ProInversion, there are more than 80 infrastructure projects in the pipeline for the next two years with an estimated total investment of $17 billion, mainly in the transportation and telecom sectors.

Finally, although the fiscal deficit is above 3% of GDP, it is still better when compared to the region and the expectation for it is to return to 2.2%, which is within the fiscal rule.

On Slide 6, we are closely monitoring the evolution of economic policy in the United States, which is generating uncertainty in the business environment. In this context, we wanted to review the current status of Peru's trade. Firstly, it is important to note that the United States is no longer Peru's primary commercial partner, but the second, representing approximately 13% of our total exports. Secondly, our main export products to the United States are agricultural goods, which have low price sensitivity. Therefore, we do not anticipate a significant impact of these products from tariffs.

Finally, our main export products, copper and gold, remain at high historic levels in terms of price, which should provide additional support for investment and GDP growth.

We believe that in the short term, the direct impact of these policies will be mild. However, as the trade war escalates and affects global growth, it could have repercussions in Peru's growth for 2026, and beyond.

On Slide 7 and moving to the results and the good start of the year for IFS, IFS achieved earnings of $146 million, which is 3.2x last year's results. The ROE reached 16.3%, surpassing our short-term expectations and setting us on a path towards our medium-term ROE goal. The year-over-year improvement is primarily linked to banking results as both the cost of risk and the cost of funds have, significantly, declined. Furthermore, insurance results had a positive quarter when compared to the negative first quarter of 2024.

In banking, during the last quarter, net income has remained stable, which is positive considering the seasonal effect on banking results in the fourth quarter, due to the high level of activity in December of every year and to the fact that in the first quarter of 2025, we had around $41 million impact related to our indirect exposure to Telefonica.

In the insurance business, our core operations remained solid with annuities and life insurance continue to grow. Moreover, this is the first quarter where the disability and survivorship premiums acquired from the Peruvian private pension system start. The increase in earnings in the first quarter of 2025 is also attributed to a good performance in the portfolio, despite the impact of around PEN 63 million due to Telefonica.

Finally, in the Wealth Management business, the positive dynamic of clients continues. Additionally, investment portfolio performed well on a year-over-year basis.

On Slide 8, we have positive news as revenues increased 14% in the last year, due to good performance in the three operating companies.

First, we see 37% increase in revenues from Interseguro as we see most of the business lines, highlighting the disability and survivorship premiums mentioned before, came into effect.

Second, there has been an important improvement in revenues at Interbank on a year over year basis, driven by a reduction in the cost of funds, an increase in fee income and other income.

Finally, we continue to see strong performance in the core business at Inteligo, with better returns from the investment portfolio, compared to the previous year.

To conclude this section, we would like to share with you the key businesses in which we have focused our growth efforts:

We continue to see strong growth in our commercial business, showing a 19% year-over-year increase. Moreover, small businesses have shown 60% increase in loans and an 18% growth in deposits. Both have been boosted by our synergies with Izipay, the strong focus on sales financing, as well as our digital capabilities. On the retail side, consumer loans, excluding payroll deductible loans, have stabilized. Meanwhile, mortgages are showing a 7% increase, gaining market share and now ranking #3 in the system.

In Insurance, we continue to grow our contractual service margin, 27% in the last year, as long-term insurance, such as life insurance annuities and credit life show a positive path.

Finally, wealth management will continue to grow with assets under management increasing 17% in a year-over-year basis.

Now, let's move on to our second key message.

Over the last quarters, we have observed a significant change in trend in the credit cards and personal loans portfolio, as the last three months, including April, have shown growth. Our focus has been on exploring different growth avenues, within specific segments. Additionally, we have seen a reactivation in cash loan disbursements, which have increased by 27% in credit card turnover, which has risen by 11%, over the past year.

We are growing with a better risk profile, as we can see from the constant improvement in cost of risk of retail during '24 and 2025. The enhancement of our internal models, including customer centricity vision is allowing us to address growth in a healthy manner.

On Slide 12, we observed a year-over-year loan growth, total loan growth of 8.2% in a context where the overall market has grown only around 2%. On the retail side, we experienced nice growth in mortgages with around 7%, year-over-year. The consumer portfolio has still decreased by 4.8% on a yearly basis, although it has been stable in the last two quarters.

The commercial loan book experienced significant growth this year. With a 19% year-over-year increase, it has gained relevance in the mix rising from 44% to 48%, getting closer to our 50-50 balance portfolio target. During 2024, we leveraged the Impulso Mi Peru program, although we did not use the program in the first quarter of 2025. Mid-sized companies gained over 270 basis points in market share, now consolidating as third in the market. Sales finance remains one of our key products with market share growing from 16.9% just 12 months ago to more than 18%, ranking second in the market. Therefore, the commercial banking portfolio has outperformed the system, gaining 120 basis points in market share, reaching almost 11%, which is our all-time high.

As part of our strategy, we continue to strengthen our payment ecosystem with Plin and Izipay.

We have continued working to generate further synergies as we encourage the growth of our payment ecosystem, focusing on increasing transaction and volumes, offering merchants value added services and using Izipay as a distribution network for Interbank products, as well as a source to increase growth.

In this manner, our digital retail customers have grown by 16% and our Plin active users by 20%, over the last year. Moreover, IzipayYA continued to gain traction with volumes from IzipayYA increasing 2.8x, resulting in more flow coming to Interbank. Consequently, small business deposits have grown by 18% and Interbank share of Izipay's flows now stands at 40%.

As a result of the synergies mentioned, we see positive trends in four key indicators, as you can see in Slide 13. Around 30% yearly increase in Izipay cash flow coming to interbank accounts, a 52% increase in flow from merchants. And 2.8x year increase in transactional volumes and 66% growth in float from micro merchants, thanks to IzipayYA.

Following with the third message, we continue to see a positive trend in cost of risk.

On Slide 16, we wanted to highlight that the cost of risk and NPLs continue to be at low levels at 2.8% and 2.5%, respectively. If we exclude the Telefonica effect, the cost of risk would have been 2.5%, continuing the positive trend in this indicator. In general, both indicators have followed a downward trend over the last year, thanks to the improvement in economic indicators and better payment behavior from clients.

The main driver for this positive trend has been the improvement in the retail risk profile. Over the last 12 months, credit cards and personal loans have decreased its size, now representing 18% of the total loan book, down from 22% a year ago. The new vintages are healthier as the better macro environment is having a positive impact on the payment behavior of our customers. This has allowed the cost of risk from retail to reduce consistently during the last 12 months to 4.1%, which is 380 basis points below the levels of a year ago.

Regarding commercial banking, the cost of risk was impacted by provisions made due to letters of guarantee held with Telefonica. Excluding this effect, the cost of risk would have been 0.3%. This segment has performed well over the last year, with approximately 11% of the commercial portfolio backed by guarantees from the Impulso MyPeru program.

Finally, the NPL coverage ratio has remained stable above 140%.

On Slide 17, NIM has remained relatively stable, while risk-adjusted NIM improved by 120 basis points on a year-over-year basis, in line with the improvement in cost of risk mentioned in the previous slide. The risk-adjusted NIM, excluding the Telefonica effect, has remained stable in the last quarter.

There continues to be an impact on yields, due to the lower market rates and the shift of the loan book mix. Consequently, we see lower yield on loans of 80 basis points in the annual comparison, reaching 10% in the first quarter. This trend should improve as we continue to grow the consumer portfolio.

Now, we will deep dive into the cost of funds improvement.

On Slide 19, the cost of deposits continues a positive downward trend, not only due to lower market rates as we continue to reprice our liabilities, but also due to a better funding mix as the low-cost funding has gained relevance, representing 35% of our funding.

It is important to mention that deposits have become a more relevant part of our funding structure, increasing from 78% to 81% in the last 12 months with growth in both retail and commercial deposits.

As a result, our cost of funds improved by 80 basis points on a year-over-year basis, although stable in the last quarter.

Finally, our loan-to-deposit ratio stands at 97%, in line with the industry's average.

On Slide 20, we wanted to take a closer look at the low-cost funding strategy of Interbank, which primarily focuses on capturing saving deposits and current accounts with low to 0 interest rates. To achieve this, we have implemented various initiatives aimed at enhancing the value-added services provided to our clients.

For example, the synergies in Izipay have enabled us to offer a more comprehensive service to our clients, thereby increasing the flow that stays at the Interbank accounts from Izipay and generating a rise in the transactional deposits. This has contributed to a 16% increase in commercial low-cost funding.

Additionally, we continue to work on the engagement of clients and enhancing customer experience to foster primary banking relationships in retail. Consequently, retail low-cost funding has seen a 10% increase over the year.

As a result, we achieved a 14% year-over-year increase, raising our share of low-cost funding from 32% to 35% in the last year.

Moving on to our digital strategy.

We believe we are creating significant value and primary banking relationships through our digital developments and Plin. Over the last year, we have been able to increase our retail primary banking customers by 15%, now representing more than 32% of our retail client base.

To achieve this, we have been implementing commercial actions focused on increasing engagement and transactions, which have resulted in accelerated growth for Plin. The number of transactions doubled in the year-over-year comparison with active users increasing by more than 19% and the average number of transactions per user rising by 40%.

Additionally, we believe we have solid key performance indicators that continue to improve. For example, our inflow payroll accounts hold around 14% market share. Retail deposits are approximately 15% market share in credit card accounts for about 26% market share. All of these metrics are supported by an NPS of 58, reflecting our commitment to customer satisfaction and loyalty.

On Slide 23, we continue to highlight the positive trends in our digital indicators compared to the previous year, as we are continuously developing solutions to meet our customer needs. As a result, we have seen substantial growth in retail digital customers increasing from 77% to 82%, as our commercial digital clients stand at 72%.

The digital self-service indicator and digital sales have risen to 78% and 70%, respectively, thanks to our always-on communication actions, which focus on educating customers about new self-service functionalities through the app and our virtual assistant.

Finally, our NPS has recovered during the last quarter from 55 to 58.

Finally, the sixth message is that there is strong growth in insurance and wealth management.

Moving to insurance on Slide 25, on a yearly basis, we see an increase in the contractual service margin of 27%, mostly driven by individual life and annuity. In the first quarter, we observed growth in individual life and annuities reserves of 36% and 38%, respectively, driven by the generation of new business, which surpluses the monthly amortization of the CSM. Also, we see an increase in short-term insurance premiums of 124%, mainly due to disability and survivorship premiums acquired from the Peruvian private pension system to a 2-year bidding process.

The result from investments increased to 35%, year-over-year. The return on investment portfolio reached 6.2%, mainly due to better real estate and investment funds valuation, offsetting the $63 million provision, due to Telefonica.

In insurance, we continue to focus on enhancing the digital experience for our clients and expanding our sales from digital channels. The development of internal capabilities has allowed us to increase digital self-service to 69% from 63% of the previous year. Also, Bancassurance digital sales have reached 30% of total Bancassurance premiums and direct digital sales continue to grow, reaching $23 million in the quarter, up 15% from last year.

On Wealth Management, assets under management continued to grow at an annual rate of 16% and 3% on a quarterly basis, reaching a new all-time high of $7.5 billion, despite a slight impact on market valuations due to global volatility. Interfondos had an important growth as the digital development with the app, Erni, has allowed us to grow more than 43%, when compared with the previous year.

This growth continues to support strong fee generation, which remains steady at $46 million for the quarter.

On the digital front, we continue to enhance our Interfondos app with the goal of shifting its role from a transactional platform to a true digital adviser for our mutual fund clients. As a result, we have seen a sustained increase in both the app adoption with a 7-point year-over-year increase in digital transactions, which grew by 9 points, annually, and now represent more than half of all client transactions.

Now let me move on to the final part of the presentation where we provide some takeaways.

On Slide 30, we wanted to give you a summary of our strategy, which focuses on three key strategic priorities.

First, we aim to become a leading digital platform with profitable growth. IFS has demonstrated solid recovery during 2024 and continues to perform well during the first quarter of 2025 with a net income 2.2x larger than the same period, last year.

Second, we strive to build primary relationships by placing the customer at the center of our decisions and offering the best digital experience. As a result, NPS like the retail banking NPS at 58 are at top left, and our retail digital clients are more than 80%.

Third, we continue to focus on our key businesses, maintaining a significant market share in consumer banking above 21%, ranking second in the market. Retail deposits are around 15% market share, ranking third in the market, and commercial banking holds approximately an 11% market share, growing its relevance in the market. In annuities, we are the leader, with over 30% market share. Finally, wealth management asset under management continued to grow at double-digit rates, reaching a 17% year-over-year and surpassing previous maximums.

On Slide 31, let me give you a review of the operating trends of the first quarter.

Capital ratios remain at sound levels with a total capital ratio above 17% and the core equity Tier 1 ratio close to 12%. Let's remember, we issued a Tier 2 bond for Interbank in January.

Our ROE for the first quarter was 16.3%, in line with our guidance for 2025, setting us on the correct path to achieve our long-term goal.

For loan growth, we grew 8.2%, year-over-year, in line with our guidance of high single-digit growth. The first quarter was driven by commercial banking. We expect this trend of total loan growth to continue as we resume growth in the consumer portfolio.

We expect a recovery of NIM for the rest of the year as the cost of funds improved, due to a better funding mix and the yield on loans recovers in line with the consumer portfolio growth.

Cost of risk remains in line with the actual guidance.

And we continue to focus on efficiency of IFS as our cost to income was around 35% below guidance.

On Slide 32, we highlight our sustainability performance in the first quarter of 2025. On the environmental pillar, we continue to drive impact, through sustainable finance. Our outstanding sustainable portfolio has grown to $380 million, representing a $40 million increase, compared to 2024. Regarding our own environmental footprint, we have verified our 2024 carbon additions, achieving a significant reduction of 27% compared to previous years, alongside a 4% decrease in energy consumption, a key driver of our financial stores and main offices efficiencies.

On the social pillar, we are consistently empowering entrepreneurs through our digital wallet, IzipayYA, which reached over 47,000 entrepreneurs this quarter, totaling 1.1 million users. Furthermore, underscoring our commitment to financial education, we have provided financial trading to over 2.5 million clients and non-clients. Our inclusive insurance offerings also saw growth with more than 1,800 new sales of Rumbo and Vida Cash policies, during this quarter.

On the governance and transparency pillars, IFS has been included in the Dow Jones Sustainability Yearbook 2025 for the second consecutive year. We have also published a comprehensive IFS sustainability report in accordance with GRI and SASB standards. Finally, to foster collaboration and develop an entire sustainability strategy across IFS, we have established an eco-efficiency committee with the representation from each of our subsidiaries.

Let me finalize the presentation with some key takeaways. First, we have had a solid start to the year. Second, growing commercial payment ecosystem, while stabilizing the consumer portfolio. Third, positive trend in cost of risk continues. Fourth, improved funding costs continue driven by growth in deposits. Fifth, we are increasing primary banking relationships to a top digital experience, and sixth, growth, important growth in insurance and wealth management continues.

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

QUESTION AND ANSWER

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

And the first question will come from Andres Soto with Santander. Please go ahead.

Andres Soto
Hi. Good morning. Thank you for taking my question and the presentation. My question is related to your guidance and your expectations for 2025. During the call, you mentioned you had 16.3% ROE. I would like to confirm if that's still your expectation. And given that you're already at that level in the first quarter, which typically is seasonally low, what prevents you to expect a higher level for the year?

Luis Felipe Castellanos
Hey, Andres. Thanks very much for the question. Yes, at this point, we continue maintaining our guidance views. Obviously, we had a solid start to the year. However, we're not going to change that yet. So, we're remaining at that level, and hopefully, we'll have risk to the upside now, but still early in the year to talk.

Andres Soto
Thank you, Luis Felipe. And regarding specifically loan growth, do you have any updated view on that front? You mentioned across the presentation, significant improvement in investment and also consumer sentiment. Can we expect a forward vision to your initial expectations for loan growth or how you are seeing this year evolving?

Luis Felipe Castellanos
It's the same as mentioned before, Andres. So, we are seeing positive trends. However, this has to consolidate and materialize. So, as you've seen the consumer portfolio has not recovered yet even though there is a positive sentiment, I guess, Peruvians are not looking to get in debt now. There's been lots of liquidity events in the market. There're talks about CTS being released again. There're talks about pension funds that might have another release. That's been in discussion in progress. So, there are many moving parts towards the materialization of the recovery of consumer credit activity.

We do see healthy growth in the commercial group. And as you've seen from the last quarters, we'll be putting more focus on that portfolio and traction. So that continues to be the main driver of what we expect will happen this year and the consumer portfolio is still and we're starting to see traction. However, we are not where we would like to see it yet. I think we are going to be very aware of this situation.

Andres Soto
Understood. Thank you, Luis Felipe, and congratulations on the results.

Luis Felipe Castellanos
Thank you, Andres.

Operator
Your next question will come from Alonso Aramburu with BTG. Please go ahead.

Alonso Aramburu
Yes. Hi. Good morning. Thank you for the call. Two questions on my end. First, I wanted to ask if you expect any additional potential provisions or impairments from Telefonica or are you basically comfortable with the provisions you did in the first quarter? And second, regarding your cost of risk, you have been around 2.5% in the last couple of quarters. I believe the guidance was closer to 3%. I suspect that with the growth of consumer loans, cost of risk can trend higher, assuming that happens. So just wondering if you can give us some color whether you expect this cost of risk to remain closer to 2.5% and not 3%? Thank you.

Luis Felipe Castellanos
Okay. Alonso, thanks so much for the questions. Regarding Telefonica based on the information we have now and our analysis of the situation, what we have in the books is our best understanding of the level will be needed for the short to medium term, unless something drastically changes in terms of the process.

As Michela mentioned, we have exposure in two of our subsidiaries. One is very straightforward. That is Interseguro that has bonds issued, and we were more than 50% covered on that front. That's what our models are saying. And then in the bank, it's a little bit tricky because it's not direct exposure. I think Michela mentioned that as well. It's a contingent letter of credit subject to certain procedures with tax authority.

So, the probability of that becoming a real obligation is not that direct. I mean, it will probably take some time. However, we've been cautious, and we've done a big chunk of what could become, at some, point direct exposure. So based on what we have now, we feel comfortable, again, it's early in the process as well.

Our understanding is that we are well covered. However, if something drastically changes, we'll do something else and we'll obviously communicate as soon as we feel comfortable. And regarding cost of risk, maybe I pass it to Carlos or Michela but I guess at 3% seems our growth of the consumer, the recovery of the credit cards and the cash loans portfolio. And I don't know Carlos maybe you can complement on that?

Carlos Tori
Yes, definitely. So, we have started to grow in the credit card portfolio and cash portfolio. The last two months, we have grown, not as much as we would have liked. However, the growth, Alonso, I think when we look at credit cards, there's two things that are very important. The first one is whether our value proposition is working, and clients are using our cards, and that is happening. We have seen over 10% growth in turnover with our cards and that is good. The value proposition is working. We're seeing traction. So that is good.

However, as you have seen over the last couple of quarters, our vintages have been focused on lower risk and higher profile clients. So those clients are paying faster their loans and it's harder to grow the portfolio. So even though we have been seeing good results in the value proposition, we have not been able to grow the portfolio as much. The later vintages, the last couple of months, we have started to increase the level of risk in life.

We are being very conservative on how we do this. We want to go on the other side. And there are certain things that obviously help prepayment, which is, as Luis Felipe mentioned, the CTAs, obviously, in December, Peruvians get a double salary. So that kind of lowers the amount of our portfolio.

But we have seen this trend reverse and we will continue to monitor. If we increased risk, you will see two effects. It will affect NIM positively, obviously, but also maybe a little bit of increase in the cost of risk taking us closer to the 3% that was on our guidance.

Michela Casassa
Yes, maybe if I just complement one thing related to what we were expecting and what we are seeing, we are growing the portfolio, 8%, so this is what we were expecting. Mainly the mix is being a little bit different. So, in the mix, we are seeing a little bit less consumer lending. So, in the numbers that you see, there is a little bit of pressure in NIM but also improvement in cost of risk. So, at the end, the NIM after risk is the one that is performing better than what we expected and that is also helping the ROE.

Carlos Tori
Absolutely.

Alonso Aramburu
Perfect. Thank you. Very helpful.

Luis Felipe Castellanos
Thank you, Alonso.

Operator
Again, if you have a question, please press “*”, then “1”. Our next question will come from Ernesto Gabilondo with Bank of America. Please go ahead.

Ernesto Gabilondo

Thank you. Good morning, Luis Felipe, Michela. Congrats on your results, despite the impact of Telefonica. Most of my questions have been answered. So just a question in terms of competition and also the evolution in terms of the credit card portfolio. As you are mentioning, it's in a gradual recovery expected to accelerate in the second half. But how are you seeing also this evolution in your competitors? I believe in the past conference call, you were saying that you were trying to see to be relatively flat or experience a smaller decline when compared to the competition. So, I just want to compare that. I know how you're seeing competition and the evolution of the credit card portfolio? Thank you.

Luis Felipe Castellanos
Hey, Ernesto. Thanks very much for the question. I guess, yes, the initial competition, I would say that after the impact of the credit cycle that was--I was looking at some numbers, of course, in the last 10 years, everybody went to the cautious perspective in the portfolio. And we are starting, given the positive macro backdrop that we are experiencing, more appetite towards growth in the consumer book, including credit cards.

So again, not very different change than what we have described for our portfolio. We are starting to see growth in our book, and we are also seeing the system as a whole, recover. Some competitors being more aggressive than others. Some are still adjusting late vintages where they put rates later than others. But overall, the trends continue to be the same.

Ernesto Gabilondo
Perfect. Thank you very much, Luis Felipe.

Luis Felipe Castellanos
You're welcome.

Operator
At this time we will take webcast questions. I will now turn the call over to Mr. Ivan Peill from InspIR Group.

Ivan Peill
Thank you, Operator. The first question comes from Daniel Mora of Credicorp Capital. What is the status of the Telefonica corporate case? Did you reach the desired level of coverage or can we expect higher provisions in the upcoming quarters? And what would be the normalized figure of net profits and return on average equity in the first quarter, if we clean for this effect?

Luis Felipe Castellanos
Hi, Daniel. I guess we already answered that question. But again, based on our model or analysis and the current status of the Telefonica case, we think we're well covered. If something drastically changes, we'll probably have to do more or if something improves, obviously, we could release some of the provisions. But based on the information we have now, we are comfortable with the level of issues that we have. We don't expect to do anything in the short-term. And if you take off that one-timer or you want to see that way probably our earnings will have been north of 500 million.

Ivan Peill
Is there further room for cost of funds improvement considering the recent decrease in the Central Bank rate? What are the NIM expectations for the rest of the year, due to the funding retracing but still weak consumer segment dynamics?

Luis Felipe Castellanos
Sure. Let me pass it on to Michela so that she can help us with that answer.

Michela Casassa
And, yes, there is still room that is little room to improve the cost of funds. There is space because of the decrease in the reference rate. And on the other side, we have also issues on medium term financing with higher rates than the one we used to have before. So, I mean, I guess the big part of the cost of funds improvement is already there, but we still expect some minor decreases in the future. The NIM should recover, I mean, based on the fees but mostly based on the profitability and the improvement on mutual funds.

Ivan Peill
The next question comes from Santiago Martinez of Credicorp Capital. We saw the consumer loan portfolio contracting 4.8%, year-over-year, in first quarter 2025, mostly due to a 9% decline in credit cards. You've mentioned a recovery is expected in the second half of the year. What key indicators are you monitoring to support this view? And do you expect consumer loan growth to be strong enough to, meaningfully, support NIM and overall profitability in the second quarter?

Luis Felipe Castellanos
Hi. Thanks very much for the question. I guess I mean as a specific indicator, it's just the overall performance of the economy, how salaries evolved. And also, as mentioned, it's just not a matter of us increasing our risk appetite. It's a matter of the consumer preferences, as well. There's lots of liquidity in the system, right now. But kind of a general overview, let me pass it on to Carlos, who is more engaged in the detailed strategy of the actions we're taking in our commercial strategy, so he can give you more details on your question?

Carlos Tori
Yes. I guess it's similar to what I mentioned earlier. The--I think the first is how many people use our card to pay for things, and we have seen an increase in the use of our cards, over the last couple of months. Some of that is being prepaid and some of that is being kept as a revolver. We have seen growth over the last two months. So that is positive. It's still small, but it's a reverse in the trend that you mentioned in your question. So that is good.

We have seen an improvement in salaries, in formal salaries and formal employment, which usually is a good indicator. And then there are other forces that work against the growth of the portfolio, as I mentioned, which are, if there's a lot of liquidity in the system due to the releases of CTAs or if there's an AFP release again, that might make clients prepay some loans. But in general, we're seeing good trends in terms of usage, in terms of preference and also some increases in balance with very, or with good cost of risk. So, in general, those are the things we look at and it's trending positively, not hugely positive, but positive trends. So that's something that we're monitoring closely.

Luis Felipe Castellanos
Thank you, Carlos.

Ivan Peill
At this time, there are no further questions. I would like to turn the call over to the operator.

CONCLUSION

Operator

Thank you. There appear to be no further audio questions, as well. I would like to turn the floor back over to Ms. Casassa for any closing remarks.

Michela Casassa
Okay. Thank you very much. Just to summarize that we are very happy about a strong beginning of the year and we'll see you all again in our second quarter earnings call. See you. Bye-bye.

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.